

PepsiCo, Inc.
1990

**The Power
of Big Brands**



Big brands are powerful stuff.



But there's more to them than size.

Big brands are enduring, perform steadily, have great flexibility and are loved by consumers of all ages.

Nobody creates and nurtures big brands like we do. Eight PepsiCo brands each generate more than \$1 billion in annual retail sales: Pepsi, Diet Pepsi, Pizza Hut Pan Pizza and Doritos, to name just four. And 25 sell more than \$100 million, from Slice to Chee-tos to Taco Bell Nachos BellGrande.

There's more to come. Read on, it's a sumo of a story!

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Letter From The Chairman

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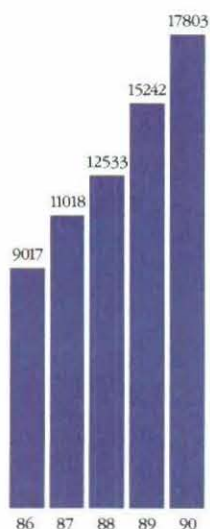
Financial Highlights

(\$ in millions except per share amounts)	1990	1989	Percent Change
Net sales	\$17,803	15,242	+ 17
Soft drinks	\$ 6,523	5,777	+ 13
Snack foods	\$ 5,054	4,215	+ 20
Restaurants	\$ 6,226	5,250	+ 19
Segment operating profits	\$ 2,224	1,896	+ 17
Soft drinks	\$ 768	676	+ 14
Snack foods	\$ 934	805	+ 16
Restaurants	\$ 522	415	+ 26
Income from continuing operations	\$ 1,091	901	+ 21
Per Share	\$ 1.37	1.13	+ 21
Net income	\$ 1,077	901	+ 20
Per Share	\$ 1.35	1.13	+ 19
Cash dividends declared	\$ 302	253	+ 19
Per Share	\$ 0.383	0.320	+ 20
Net cash generated by continuing operations	\$ 2,110	1,886	+ 12
Purchases of property, plant and equipment for cash	\$ 1,180	944	+ 25
Acquisitions and investments in affiliates for cash	\$ 631	3,297	
Return on average shareholders' equity	% 24.8	25.6	

Per share information reflects the 1990 three-for-one stock split.
Return on average shareholders' equity was calculated using income from continuing operations.

Net Sales

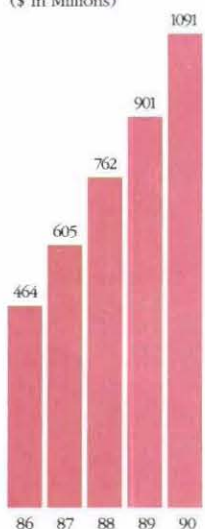
(\$ In Millions)



Net sales have grown at a compounded annual rate of 18.6% over the past five years.

Income From Continuing Operations

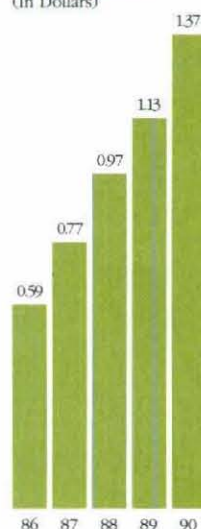
(\$ In Millions)



Income from continuing operations has grown at a compounded annual rate of 20.7% over the past five years.

Income Per Share From Continuing Operations

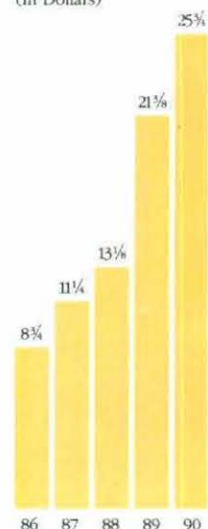
(In Dollars)



Income per share from continuing operations has grown at a compounded annual rate of 21.9% over the past five years.

Year-End Market Price Of Stock

(In Dollars)



The market price of PepsiCo Capital Stock has grown at a compounded annual rate of 26.7% over the past five years.

To Our PepsiCo Family:

After glancing at our cover, you may think it's high time we stopped working with a printer who has to crank out "Inside the World of Sumo" the same week as our annual report.

Don't worry, no mix-up has occurred. We figure there's no better way to illustrate the power of PepsiCo's brands than with a sport in which a 300-pounder goes by the nickname "Tiny."

On the one hand, PepsiCo is in the business of selling soft drinks and snacks, as well as a whole lot of chicken, tacos and pizzas. But we're really in the business of building brands. Like the sumo, these brands are big and powerful. While sumo is the "sport of champions" only in Asia, brand building has emerged as a global sport that everyone wants to play. I wouldn't trade it for any other business.

What can big, powerful brands do for a company? Just look at PepsiCo's 1990 performance:

- Net income rose 20%, to \$1.1 billion.
- Income per share from continuing operations was up 21%, to \$1.37.
- Dividends declared per share increased 20%.
- Sales climbed 17% to nearly \$18 billion.
- Outstanding profit growth occurred in all three lines of our business, with soft drinks up 14%, snack foods up 16%, and restaurants growing 26%.
- The price of PepsiCo stock rose 20%, compared to a 3% decline for the S&P 400.

When you consider that 1990 was a soft year for the economy, those results are as close to astounding as Kansas is to Nebraska.

Here is the beauty of PepsiCo: While last year was a record, it's also the newest entry in a five-year album we've now put together. Since 1985, our sales have increased at a compounded rate of 19%, and income from continuing operations is up by a compounded rate of 21%.

Half a decade of this level of growth in both sales and earnings would be cause for uncorking the champagne at a Silicon Valley start-up. But for an \$18 billion company in extremely competitive markets, it's downright astonishing. It reveals the kind of momentum that big brands can help achieve.

The Brand Advantage

Obviously, a lot goes into a successful business, from management talent to wise use of cash. But for a consumer products company, one of the most basic factors is the ability to create and sustain brands that consumers love, year after year after year.

PepsiCo is not the only consumer products company that sells brands. After all, brands jump out at us from every grocery shelf, and scream out from every TV screen. But PepsiCo's brands

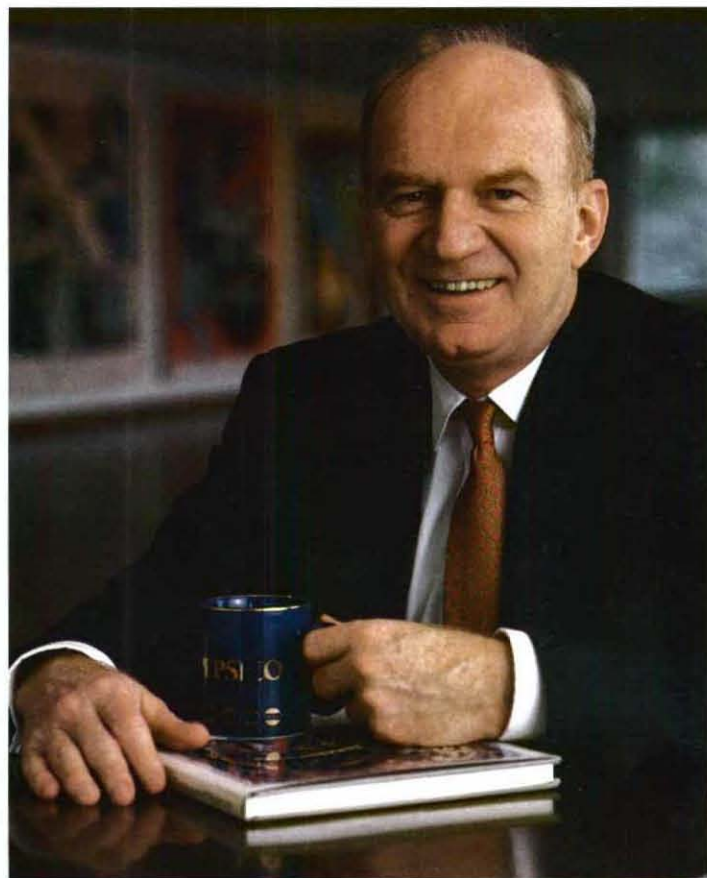
operate on a scale that most companies can only dream of. Eight of our brands—Doritos, Ruffles, KFC Original Recipe Chicken, Pizza Hut Pan Pizza, Pepsi, Diet Pepsi, Mountain Dew and 7UP—achieve a billion dollars in retail sales every year. Twenty-five more brands achieve at least a hundred million. PepsiCo brands are true champions, measured by both the breadth and endurance of their popularity.

We live in an age of impermanence. Our attics are jammed with Hula Hoops, Lava Lamps and Pet Rocks. Rare are those things that command our trust and loyalty for very long. Yet those are precisely the factors that define a brand, and make the big brand "hall of fame" so exclusive.

It's not easy to enter. But once inside, consider some of the advantages you enjoy.

• Big Brands Stand the Test of Time

The new kid on PepsiCo's big-brand block is Ruffles, which at 32 years of age is wet behind the ears by big brand standards. Pepsi,



Wayne Calloway
Chairman of the Board and Chief Executive Officer

our oldest brand, was first sold nearly a hundred years ago back in North Carolina when my grandfather was a boy. But age doesn't mean sluggishness. Look at Mountain Dew. Last year Mountain Dew added another \$130 million, bringing its retail sales to \$1.9 billion. That's a 7% growth rate for a brand that has already celebrated its fortieth birthday.

• Big Brands Grow in Good Times and Bad

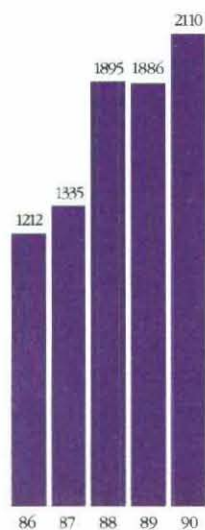
PepsiCo's brands are all "inexpensive luxuries." Even a full meal at Taco Bell, KFC or Pizza Hut will cost you less than five bucks. But consumers see our brands as valuable, not cheap. So they stay penciled into consumers' budgets during even the roughest economic storm. Last year, for example, our three restaurant chains each offered consumers more food for their dollar. In a tough year for the industry, each of our chains enjoyed record years.

• Big Brands Lead to a Lifetime of Loyalty

Two decades ago, skeptics said that soft drinks were a topped-out industry because consumers would stop drinking them once they reached 30. Instead, today 30- to 40-year-old consumers are drinking more than 22% of all soft drinks—up from 13% in 1970.

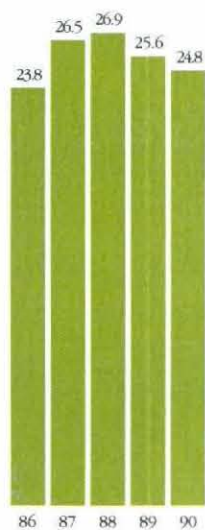
Net Cash Generated By Continuing Operations

(\$ In Millions)



Return On Average Shareholders' Equity*

(Percent)



*Based on income from continuing operations.

Clearly, diet soft drinks, led by Diet Pepsi, allow consumers to take their consumption patterns with them as they age.

Now, Frito-Lay has introduced low-oil snack chips, and KFC has come up with fried chicken without skin. By tweaking our brands just a bit, we create entire new brands, and give snack and chicken lovers a reason to keep munching for their entire lives.

• Big Brands Travel Well

How far can a brand's reputation extend? An independent British market research firm last year asked 600 Eastern Europeans to list the Western consumer products they respected most. Only four people didn't mention Pepsi-Cola, making it the most popular Western brand.

Remember, our Eastern European soft drink distribution system is still in its infancy. So those survey results are truly amazing, because most of these consumers have probably never actually tasted our products. A powerful brand's appeal can transcend differences of language and culture.

• Big Brands Are More than a Pretty Face

Let's say you could come up with a recipe for a product as scrumptious as Pizza Hut's Meat Lover's Pizza. The real challenge is not just to make the product, but to keep it hot and tasty, while getting it into the mouths of 3,000,000 consumers every day. That takes operating systems of enormous complexity.

Through ideas like Pizza Hut kiosks, we use our operating systems to strengthen our brands, by making them available to customers in new places. Our control over these systems also gives us a unique competitive advantage. Taco Bell, for example, startled the quick service restaurant industry by offering consumers more food for their money. But the real secret of Taco Bell's success has been its gains in restaurant productivity. The chain was able to slash menu prices, and still protect its profit margins.

The Brand Philosophy

Big brands can make a company powerful. But brands only endure if you know how to nurture them correctly. And here's the irony: The only way to guarantee the continued power of big brands is to change with consumer tastes. When it comes to building big brands, change plus innovation really does equal stability.

That doesn't necessarily mean you change the formula (we've heard rumors another company once tried that). But innovative line extensions like Jumpin' Jack Doritos, distribution systems like Pizza Hut kiosks, and strategies like Taco Bell's value menu, all help to drive our products' reputations through "fad," past "flash in the pan," and into the realm of a true brand, with legions of loyal followers.

We've learned that a brand is not simply a pretty bag filled with chips. Behind every bag, every can, every container, lies a restless passion for change, coupled with a disciplined attention to operating detail.

The bad news is this combination is rare and hard to develop. The good news is, once you have it, the magic of a brand can be shared, passed around, even extended to entirely new products.

That explains why brands have helped drive our explosive performance, and why we have every confidence we will keep up that growth in the years ahead.

PepsiCo's Prospects

As I indicated at the start of this letter, our financial performance in 1990 met the high expectations we've established for ourselves. Our shareholders will be heartened to know that while we strengthen our brands and meet our short-term goals, we also make long-term investments in an even brighter future. This company will never be seduced by success.

Last year, every PepsiCo division worked to turn its organizations upside down, to empower the people closest to the consumer. Taco Bell, for example, broke decades of restaurant industry tradition by widening the span of control over individual restaurants, giving each manager more freedom and authority.

In marketing and operations, we continue to follow our maxim: Fix it today, before it breaks. You'll read in this report about a record number of new products at KFC; Taco Bell's revolutionary new value menu; and SunChips, Frito-Lay's new multigrain chip, a product that could one day be as popular a brand as Doritos.

We also continue to expand our business through investments in our operations as well as making close-in acquisitions that increase shareholder value. Last year, we invested about three-quarters of a billion dollars in new businesses, with a total of 23 acquisitions. These ranged from majority ownership of Mexico's largest cookie company, Gamesa, to the purchase of several of our small franchised bottling operations.

We support these investments with financial policies that strive to fund our businesses at the lowest possible cost, while giving us the flexibility to pursue growth.

Every company faces the question of how much debt is appropriate. PepsiCo's philosophy hasn't changed much over the years, despite leveraged buyouts and the ups and downs of the junk bond markets.

We carefully set a corporate leverage target, or a ratio of our net debt to net debt plus market value of equity. Over time, we strive

to achieve a ratio of 20% to 25%. We use market value as a yardstick, rather than the traditional book value, because the market standard reflects the tremendous value of our intangible assets—especially our brands' reputations—while also taking into account our strong potential for growth.

Our leverage target is set with an eye toward maintaining flexibility, which means we can exceed our target occasionally to take advantage of attractive investment opportunities.

Our financial policies are designed to ensure that PepsiCo's credit rating remains strong, ensuring full access to credit markets, and lowering the cost of our investment strategies.

In 1991, we will continue to accelerate our growth in our international markets. Last year, for the first time, one out of every five sales dollars was outside the U.S. In every line of business, we see potential that equals or exceeds the explosive growth that occurred when our domestic industries were in their infancies.

Keeping up with this growth will be a challenge, and an incredible force for renewal at PepsiCo. In light of our emergence as a truly global company, I've assessed the international potential for each line of business in this year's Operating Review.

PepsiCo People

Recently Fortune magazine asked the nation's business experts to list America's most admired companies. Out of hundreds of companies, we were flattered and fortunate to finish in the top five of this distinguished ranking. But what especially pleased me was the consistently high marks we received for the quality of our management.

These experts weren't talking about me. They were talking about our division leaders, our staff experts, our route drivers, our plant operation managers.

Two years ago, we recognized the role that every PepsiCo family member plays in our development. We became the largest company to grant stock options to every full-time team member.

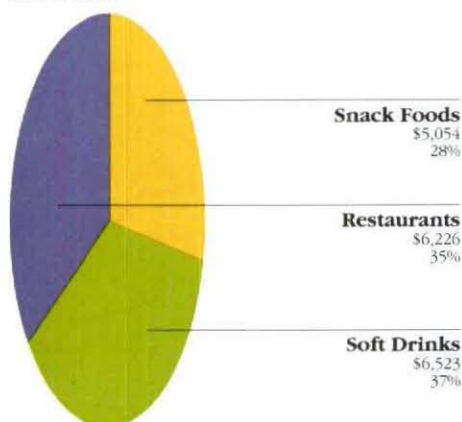
If you think employee empowerment is just a buzzword, talk to the elderly Ohio couple who watched a Pizza Hut delivery woman stop a parade to bring them their hot pizza.

Or talk to a senior executive at Texaco who went out to dinner and accidentally bumped into one of our accountants from corporate headquarters. Although the accountant had no sales responsibilities, he talked the Texaco executive into trying to sell pizzas at convenience stations in Europe. Give us 300,000 people with that accountant's attitude and we can do anything.

Of course, this change-oriented psychology doesn't just exist on our front lines. Last year, Roger Enrico, for many years our

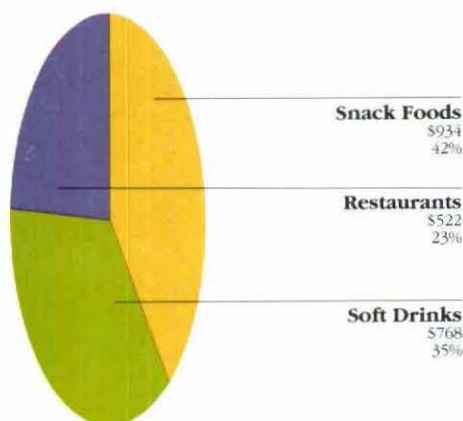
Segment Net Sales Total: \$17,803

(\$ In Millions)



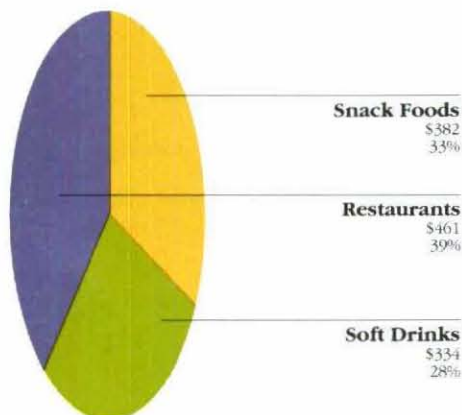
Segment Operating Profits Total: \$2,224

(\$ In Millions)



Segment Capital Spending Total: \$1,176

(\$ In Millions)



Cola Wars general, became chairman of Frito-Lay, our most profitable division. And Mike Jordan, who ran our worldwide snack food business, is now responsible for international soft drinks and snack foods.

PepsiCo's success owes much to our Board of Directors. In my opinion, it is the finest board in corporate America. This year, that Board will undergo change.

Frank T. Cary and William T. Coleman, Jr. will both retire from the Board in May. Frank ran IBM and is one of our nation's foremost business leaders. Bill's contributions to the legal profession and his public service have helped change American history. He brought that same passion and intellect to the PepsiCo Board. We thank them for all they did on PepsiCo's behalf.

The May Board meeting will also be the occasion for the official retirement from the Board of Donald M. Kendall, PepsiCo's former chairman. Together with Herman Lay, Don was our creator, and our company today strives to live up to his ideals. Rest assured, Don will continue to provide us with guidance and advice. He will always be PepsiCo's roving ambassador to the world, as well as our resident expert on the Soviet Union, international diplomacy, Washington politics, sculpture, botanical gardens, Russian vodka and physical fitness.

As these great executives exit from our Board, we are very pleased to welcome John Akers, chairman of IBM. His experience will be invaluable in helping to chart PepsiCo's future.

Raising "Yokozuna"

In sumo, "Yokozuna" means, "the champion." It is a rare rank reserved for only the very finest wrestlers. The brand-building business gives no such formal awards, but that's still our goal: We want to be the world's finest consumer products company.

As this report indicates, we continue to make progress toward that objective. Our brands have never been as big, our capacity for change never more apparent, our operating and marketing capacity never more powerful.

While the world economy breeds uncertainty, I can say with confidence that PepsiCo in 1991 is dedicated to turning in record performances for the benefit of every member of our extended family.

Wayne Calloway
Chairman of the Board and Chief Executive Officer
March 1, 1991

Operating Review

PepsiCo is a leader in three very large, growing and profitable markets: soft drinks, snack foods and restaurants. Our major companies—Pepsi-Cola, Frito-Lay, PepsiCo Foods International, Pizza Hut, KFC and Taco Bell—are among the best known and most successful in the world.

PepsiCo has scores of big, beloved brands available in nearly 150 countries. Our brands account for an estimated \$44 billion in retail sales.

PepsiCo has more than 300,000 employees and they are the biggest reason for our success. Their talent and dedication in handling millions of consumer and trade transactions each day make PepsiCo one of the world's premier consumer products companies.

PepsiCo is first and foremost a growth company. Our primary corporate objective is to maximize the value of our shareholders' investments through a strategy of rapid sales growth, close control of costs and astute investment of our financial resources.

In 1990 we achieved our objective through:

- Strong double-digit sales growth in all three lines of business.
- Record levels of operating profits in each business—pushing net income over the \$1 billion mark for the first time.
- More than \$1.9 billion in capital investments and acquisitions of 23 domestic and international businesses.

The Operating Review details the vigorous action each of our businesses is taking to improve on this record performance. 1990 was our best year ever, and 1991 will be even better.

Pepsi-Cola Company Pepsi-Cola International

(\$ in Millions)

Sales	\$6,523
% Change	+ 13
Operating Profits	\$ 768
% Change	+ 14
Profit Margin%*	11.9
Point Change	+ .5

*Excludes unusual items described on page 35.

Operating Highlights

- **U.S. operating profits climb 17%, sales up 9%. International sales up 29%, system volume up nearly 5%.**
- **Diet Pepsi products generate seventh consecutive year of double-digit volume increases.**
- **Brand Pepsi worldwide retail sales exceed \$14 billion.**
- **Caffeine Free Diet Pepsi becomes the fastest-growing diet cola in the U. S.**
- **Ten-year contract signed with Soviet Union. Lehar Pepsi launched in India.**
- **Hand-held computers provide better customer service and operating savings.**
- **Ongoing acquisitions of franchised bottling operations improve selling and efficiency.**
- **New partnerships strengthen international bottling system.**

Industry Position

In 1990 estimated retail sales of all soft drinks in the U.S. reached \$44 billion—an estimated 7.9 billion cases. Consumption climbed to more than 47 gallons of soft drinks per person. Volume grew 3%.

The international soft drink market is even larger, nearly 14 billion cases in 1990. Compared to the U.S., worldwide consumption rates are relatively low. So there remains enormous growth potential overseas. For example, even in Mexico, the world's second largest soft drink market, per capita consumption is only about two-thirds what it is in the U.S.

In the U.S., Pepsi-Cola brands account for approximately one-third of the entire soft drink industry—about \$14 billion in retail sales. Volume growth in the Pepsi-Cola system was even with that of the soft drink industry, despite loss of a major fountain account.

Internationally, our product line includes 7UP, a popular brand in more than 80 countries. In all, our brands are available in nearly 150 countries and account for about 15% of the market outside the U.S. International system volume increased about 5%. Excluding the impact of halted shipments to Iraq and Kuwait, international system volume increased 7%.

Marketing Strategies

During 1990 these key marketing strategies kept four of our soft drinks—Pepsi, Diet Pepsi, Caffeine Free Diet Pepsi and Mountain Dew—among the world's top 10 soft drink trademarks and helped raise retail sales of our soft drink products around the world to more than \$23 billion.





Soft Drinks

Big Brands Worldwide

Introduced: 1898
Estimated 1990 Retail Sales:
\$14 Billion

Acquired: 1986
Estimated 1990
Retail Sales:
\$130 Million

Introduced: 1964
Estimated 1990 Retail Sales:
\$3.7 Billion

Introduced: 1984
Estimated 1990 Retail Sales:
\$600 Million

Acquired: 1964
Estimated 1990 Retail Sales:
\$1.9 Billion

Acquired: 1986*
Estimated 1990 International
Retail Sales: \$1.3 Billion

* In the United States, 7UP is not owned by PepsiCo.



Expand through line extensions.

Diet and flavor varieties capitalize on the familiarity of our brands to accelerate growth. For example, Diet Mountain Dew, introduced in 1986, grew 14% in 1990, bringing retail sales of Mountain Dew products to \$1.9 billion.

In 1989 we introduced line extensions to Mug Root Beer, acquired three years earlier. New Mug Cream is available in both regular and diet versions. With growth of 26% in 1990 and retail sales of \$130 million, Mug is one of the fastest-growing soft drinks in the industry.

Concentrate on high-potential international markets.

In 1990 international sales grew 29%. We focused on building our brands in high-potential markets. In the Soviet Union, we signed a new agreement that will more than double Soviet soft drink production during this decade. In India our joint venture launched its first product—Lehar Pepsi.

Similarly, since acquiring Seven-Up International in 1986, we've expanded the 7UP brand and introduced it in more than 30 markets.

Once we've established our major brands, we look for other market opportunities. For instance, diet soft drinks are becoming more popular overseas and we've now introduced Diet Pepsi in 69 countries. In 1990 we continued to expand by introducing Diet Pepsi with 100% NutraSweet in Singapore. In Australia we introduced the first caffeine-free diet cola.

Vending offers a huge international opportunity. In the U.S., at least 12% of soft drinks are sold through vending machines. Internationally, apart from just a few countries, vending machines

Lead diet segment growth.

In 1964 we recognized that diet soft drinks would become a big growth market in the future, and we introduced Diet Pepsi, the first national diet soft drink. Today, diet soft drinks account for nearly 30% of the U.S. soft drink market—and we've built Diet Pepsi into the fourth largest soft drink brand in the nation. We've done this by making sure that Diet Pepsi has a great taste and is supported by strong advertising and promotions.

In 1990, "The Right One," a major advertising campaign, featured singing legend Ray Charles. Diet Pepsi was showcased at major events such as the Super Bowl. Our efforts made this the seventh consecutive year of double-digit growth for Diet Pepsi products. Caffeine Free Diet Pepsi, with a growth rate of nearly 18%, became the fastest-growing diet cola in the U.S.

are practically unknown. We took advantage of this opportunity by increasing vending placement in international markets by approximately one-third in 1990.

Create news around brand Pepsi to keep it young and exciting.

Pepsi is not only a big brand, it's one of the biggest and best known. In 1990 worldwide retail sales of brand Pepsi exceeded \$14 billion. That's larger than the gross national product of nearly two-thirds of the world's nations.

Our size is the result of an intense focus on brand Pepsi through advertising and promotion. Our advertising consistently rates at the top of U.S. consumer polls in terms of enjoyment and memorability. As a result, despite being nearly 100 years old, brand Pepsi has a young, fresh image that we constantly update. In 1990, for example, our television commercials featured top stars such as Fred Savage, Young MC, M.C. Hammer, Bo Jackson and Kirk Cameron.

We next capture consumer attention at the point of sale. We did this in exciting ways in 1990 with such successful promotions as "Cool Cans/Cool Cash," featuring novel graphics on our Pepsi cans. Consumers returned each week for new designs. The promotion was so popular, we brought it back for the winter holiday season, this time for brand Pepsi, Diet Pepsi and Caffeine Free Diet Pepsi.

Operating Strategies

Our soft drink operations are large and profitable. Our system includes nearly 900 company-owned and franchised bottling plants worldwide. Our company-owned fleet alone totals nearly 12,000 vehicles. In 1990 world-

wide operating profits reached \$768 million, up 14%. Four major strategies helped us achieve these results.

Improve our U.S. competitive position through acquisitions.

We're investing to improve our competitive position by selectively buying available franchises to help consolidate production and reach consumers more efficiently.

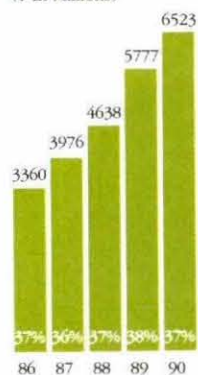
In the past five years, we've invested \$4.6 billion to acquire franchised bottlers, thereby increasing our ownership in the system from one-fourth to nearly one-half. We've also acquired equity positions in another 20% of the bottling business. In 1990 we acquired four franchisees.

This major shift toward ownership gives us the flexibility to change the way we manage our bottling business. Owning more of our system not only creates cost synergies, it also allows us to more easily expand distribution to new markets. We've established new account groups to serve restaurants and their supply groups, and theaters and other on-premise opportunities. Our customers are supported both on a local and a national level.

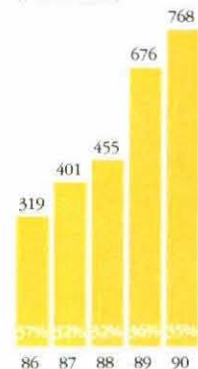
Spread the use of hand-held computers.

We are stepping up the introduction of hand-held computers on our U.S. route trucks in order to improve operating efficiency. Hand-held computers were first used successfully by Frito-Lay. The computers on a Pepsi-Cola route truck save our salespeople time, strengthen our management of accounts and allow us to provide better service to our customers. Savings from labor and supplies are estimated at \$8 million a year—an amount that compounds year to year.

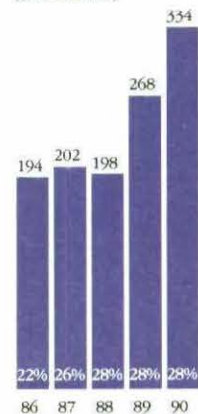
**Soft Drinks
Net Sales**
% Of Total Net Sales
(\$ In Millions)



**Soft Drinks
Operating Profits**
% Of Total Segments
Operating Profits
(\$ In Millions)



**Soft Drinks
Capital Spending**
% Of Total Segments
Capital Spending
(\$ In Millions)



Chairman's Outlook: Focus on International Opportunities

We've built up tremendous equity in our soft drink brands. They're known around the world, associated with fun and refreshment and are so much a part of people's lives that they'll weather most economic shifts.

The challenge of our business is to keep infusing it with new ideas that make it even more profitable. In the U.S., this means strong marketing programs, exciting advertising and careful attention to operations.

Overseas, the growth prospects for the soft drink industry are virtually limitless and there are many things working in PepsiCo's favor as we take advantage of this growth.

In some countries, per capita consumption is still so low that consumers drink in a year the same quantity of soft drinks as many Americans consume in a weekend. We're helping to change this through aggressive advertising and promotion of our soft drinks, as well as new convenience packaging. In Holland, for example, we introduced a returnable plastic soft drink bottle. It increased our market share by four points. Overall, international industry volumes are expanding at more than one and one-half times the U.S. industry rate and should continue at that pace for some time to come.

Economic growth is also in our favor. We're seeing lower inflation and robust growth in some of our key Latin American markets, especially Mexico, where we hold nearly 30% of the cola market.

Rising long-term world prosperity, reduced barriers to trade, and the global expansion of television, mean that our markets are poised for unprecedented expansion. The only clouds in 1990 were those in the Middle East, where concentrate shipments to Iraq and Kuwait stopped late in the year because of the outbreak of war.

In our international soft drink markets, our biggest challenge is how to take advantage of the growing opportunities. The major issue we face is how to efficiently and consistently get our products to consumers, and guarantee quality in taste, packaging and image. This means strengthening our bottlers. Where it makes sense, we're taking ownership.

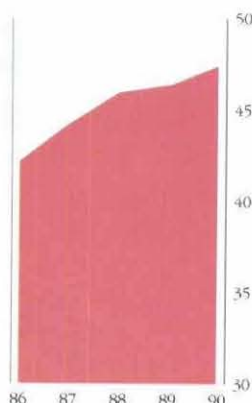
The things we are doing to develop and nurture our brands and take advantage of their considerable equity may sound easy enough, but they're all complicated by the fact we have to do them in nearly 150 diverse markets.

I'm confident we're up to the challenge. Since 1985 our international soft drink revenues have grown at a compound annual rate of 22% and profits from ongoing operations soared at a compound annual rate of 44%. And this is only the beginning. Although our international soft drink operations are 56 years old, we're really just a teenager.

For 1991, our strong U.S. results when combined with our accelerating international results, should generate increasing revenues and double-digit increases in operating profits.

—Wayne Calloway

**U.S. Soft Drink
Consumption**
(Gallons Per Capita)



U.S. soft drink consumption reached a new high of more than 47 gallons per person.

**U.S. Pepsi-Cola
System Case Sales
Growth vs.
U.S. Soft Drink
Industry Growth 1990**



U.S. volumes of Pepsi-Cola products grew as fast as soft drink industry volumes.

Improve our customers' businesses.

Our goal is to understand our customers' needs and to address those needs better and faster than our competition.

We're helping our customers grow their businesses as well as our own. For example, in 1990 we worked with a convenience store account to create a series of national events that increased its soft drink sales by millions of cases. We're launching similar programs, tailored to each customer's needs. Convenience stores are a fast-growing soft drink category, so the potential is significant.

Strengthen our international operations.

Throughout the world, we're forging new, stronger partnerships through joint ventures and bottler appointments. Our goal is to strengthen our international soft drink system through partnerships with bottlers who are experienced in soft drinks, committed to Pepsi brands and financially secure.

We've made major strides. In the last two years we've started joint ventures in the Philippines, Taiwan and Spain. We have new franchise agreements in Australia and Argentina.

Results have been very positive. In the Philippines, for example, volume had been declining for two years. Our joint venture was formed with a group of prominent industrialists. We then invested to rebuild the infrastructure, to improve quality and to strengthen selling and distribution. The success of this strategy was immediately clear. In 1990 volume increased 27%.

We're also focusing on the quality and image of our brands, which are our ultimate competitive strengths.

To do this we've increased product

testing and tightened our creative standards. We're applying the same award-winning U.S. creative standards to our international operations. Most importantly, we're formalizing the process through a new bottler training school, the Pepsi-Cola International Management Institute.

Management's Analysis

(Note: the following discussion should be read in conjunction with "Business Segments" on page 34 and "Management's Analysis—Results of Operations" on page 37.)

1990 vs. 1989

Worldwide net sales increased 13% to \$6.5 billion. Excluding the first year impact of franchised domestic and international bottler acquisitions and the 1989 reconsolidation of a bottling operation in Japan previously held for sale, net sales increased 9%. The largest of the acquisitions was the March 1989 acquisition of the franchised domestic bottling operations of General Cinema Corporation. (Comparisons excluding the first year impact of acquired and reconsolidated bottling operations are determined by excluding from reported current year amounts the results of such operations for the corresponding periods that the operations were not reflected in reported prior year amounts.)

Domestic net sales rose 9% to \$5.0 billion. Excluding the first year impact of acquisitions, domestic net sales rose \$245 million (5%). This growth reflected higher volumes and pricing in both concentrate and bottling operations, with volume growth representing about 70% of the increase.

International net sales grew 29% to \$1.5 billion. Excluding the first year impact of acquired and reconsolidated

**U.S. Soft Drink Industry Retail Sales
Pepsi-Cola Share**



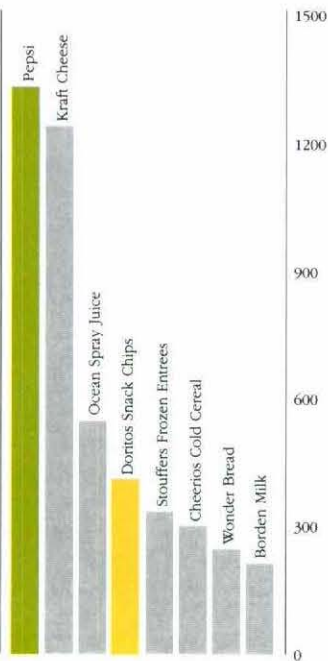
U.S. retail sales of soft drinks total \$44 billion. Pepsi-Cola brands account for almost one-third of this market.

**International Soft Drink Case Sales
Pepsi-Cola and 7UP Share**



International sales of soft drinks total about 14 billion cases. Pepsi-Cola and 7UP brands account for about 15% of this market.

**Top-Selling Food Categories
In Major U.S. Supermarkets**
(Sales In \$ Millions)



Brand Pepsi sales are higher than the sales of the leading brand in any other super-market food category.
(Based on IRI InfoScan Service® data)

bottling operations, international net sales advanced \$256 million (22%). One-third of the sales increase was due to higher finished product sales to franchisees in Germany and Japan. Increased concentrate shipments represented 20% of the improvement. The remainder of the growth was due to price increases, the favorable translation impact of a weaker U.S. dollar and higher sales in bottling operations.

Domestic system (combined company-owned and franchised bottlers) case sales grew 3%. Excluding from both years the Burger King fountain business, which was lost to a competitor in 1990, domestic system case sales rose 4%. This growth reflected strong gains in Diet Pepsi, Mountain Dew and Mug products, partially offset by declines in Slice products. International system case sales increased 5%, as strong sales in Western Europe, Asia and Latin America were partially offset by declines in the Middle East due to the halt of concentrate shipments to franchised bottlers in Iraq and Kuwait. Excluding Iraq and Kuwait from both years, international system case sales growth was 7%.

Worldwide operating profits advanced 14% to \$768 million. Operating profits in 1990 included unusual charges of \$10.5 million for receivables exposures related to highly leveraged domestic retail customers. Unusual items in 1989 included a \$32.5 million credit resulting from a decision to retain the bottling operation in Japan previously held for sale and a \$12.3 million charge to decentralize international operations. Excluding the 1990 and 1989 unusual items, as well as the first year impact of acquired and re consolidated bottling operations, worldwide operating profits were up

18%. Amortization of goodwill and other intangibles (principally domestic) was \$111 million in 1990 and \$102 million in 1989.

Domestic operating profits increased 17% to \$674 million. Excluding the first year impact of acquisitions and the 1990 unusual charges, domestic operating profits grew \$99 million (also 17%). Volume-related growth of \$93 million was the principal driver of this profit increase, as price increases were essentially offset by higher promotional and other operating expenses. The loss of the low margin Burger King fountain business did not significantly impact operating profits. The domestic operating profit margin, excluding the unusual charges, grew over one point to 13.6%.

International operating profits declined 5% to \$94 million. Excluding the 1989 unusual items and the first year impact of the acquired and re consolidated bottling operations, international operating profits increased \$20 million (25%). This profit growth reflected \$13 million from increased concentrate shipments, as well as higher finished product sales and improvements in bottling operations. These benefits were partially offset by marketing and other operating expense increases that exceeded higher prices. The international operating profit margin, including the acquired and re consolidated bottling operations but excluding the 1989 unusual items, declined one-half point to 6.3%. The decline was primarily due to decreased concentrate shipments to the Middle East.

1989 vs. 1988

Worldwide net sales increased 25% to \$5.8 billion. Excluding the first year

impact of 1989 and 1988 franchised bottler acquisitions, the Japan bottling operation and domestic bottling operations divested in late 1988, net sales increased 6%.

Domestic net sales rose 26% to \$4.6 billion. Excluding the first year impact of acquisitions as well as the divestitures, domestic net sales rose \$172 million (5%). Volume growth accounted for half of the increase, with the remainder due to favorable product sales mix and pricing advances in both concentrate and bottling operations. Sales growth was negatively affected by one more week in the 1988 reporting period.

International net sales grew 19% to \$1.2 billion. Excluding the April 1989 acquisition of a Greek franchised bottler and the reconsolidated bottling operation, international net sales advanced \$80 million (8%). A broad-based increase in concentrate shipments, with strong growth in key markets, accounted for 70% of the increase. The balance was due to pricing advances partially offset by the unfavorable translation impact of the stronger U.S. dollar.

Domestic system case sales grew 3.5%, led by strong growth in Diet Pepsi, Mountain Dew and new Mug products, partially offset by declines in Slice products and brand Pepsi. International system case sales increased 4% as higher sales in Mexico, Western Europe, the Far East and Canada were partially offset by declines in Venezuela, Argentina and the Philippines. System case sales growth is presented on a calendar year basis.

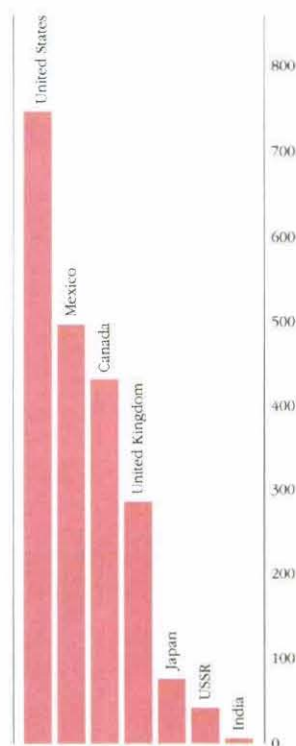
Worldwide operating profits advanced 49% to \$676 million. Operating profits were affected by certain

1989 and 1988 unusual items. (See Note to Consolidated Financial Statements on page 35.) Excluding these unusual items, the first year impact of acquisitions and the reconsolidated and divested bottling operations, worldwide operating profits were up 28%. Amortization of goodwill and other intangibles (principally domestic) was \$102 million in 1989 and \$44 million in 1988, with the increase primarily reflecting acquisitions of domestic franchised bottlers.

Domestic operating profits increased 42% to \$578 million. Excluding the first year impact of acquisitions, the divestitures and the 1988 unusual charge, domestic operating profits grew \$104 million (26%). Volume growth represented over 25% of the dollar increase. The balance of the improvement was due to pricing advances in both bottling and concentrate operations in excess of cost increases, favorable product sales mix, and administrative cost savings, partially offset by the effect of one more week in 1988. The domestic operating profit margin, excluding the reorganization charge, grew one point to 12.5%.

International operating profits rose 99% to \$99 million. Excluding the acquired and reconsolidated bottling operations and the 1989 and 1988 unusual items, international operating profits increased \$24 million (41%). Led by Canada, Western Europe and Mexico, concentrate volume increases contributed almost \$20 million to profit growth as increased prices were largely offset by higher promotional and other operating expenses. The international operating profit margin, excluding the unusual items, grew over one-half point to 6.8%.

International Soft Drink Consumption vs. U.S. Consumption
(8 Oz. Servings Per Capita)



Comparatively low per capita consumption rates of carbonated beverages around the world mean opportunity for Pepsi-Cola and 7UP brands.

Frito-Lay, Inc. PepsiCo Foods International

(\$ in Millions)

Sales	\$5,054
% Change	+ 20
Operating Profits	\$ 934
% Change	+ 16
Profit Margin%*	18.7
Point Change	- .5

*Excludes unusual items described on page 35.

Operating Highlights

- **U.S. pound volumes jump 6%, following a nine-year high of 7% last year.**
- **International system retail sales reach \$3.2 billion, a record high.**
- **A Light line of low-oil snack chips attracts millions of new U.S. users to the snack chips category.**
- **New flavors and existing line extensions account for \$2.1 billion in U.S. retail sales.**
- **Sunchips brand multigrain snacks is the most successful test market product in Frito-Lay history.**
- **Relaunched Rold Gold brand pretzels become the leading U.S. pretzel brand.**
- **Market leadership is strengthened in Mexico through acquisition of a majority interest in Gamesa, the country's largest cookie manufacturer.**
- **PFI opens new joint ventures in Egypt and Indonesia.**
- **Ongoing application of hand-held computer technology creates new U.S. sales and distribution opportunities.**

Industry Position

In 1990 estimated retail sales for the U.S. snack food industry—including chips, candy, cookies, crackers, nuts and other items—passed \$37 billion, representing a growth rate of 5%. Retail sales of snack chips—potato, corn and tortilla chips, pretzels and ready-to-eat popcorn—reached a new high of \$9.8 billion, up about 5%.

In the U.S., per capita consumption of snack chips increased steadily. Five years ago, annual per capita consumption of snack chips was under 12 pounds. In 1990, U.S. consumption was nearly 14 pounds per person.

International retail sales of snack chip products are estimated at nearly \$12 billion. Annual per capita consumption rates in our markets vary—ranging anywhere from eight and three-quarter pounds per person in the United Kingdom to less than two ounces per person in Turkey. There's enormous potential for growth.

In the U.S., Frito-Lay is the leading manufacturer of snack chips with nearly half the sales in the category. Eight of our products are among the 10 top snack chip brands. Doritos brand tortilla chips and Ruffles brand potato chips are the only snack chips with \$1 billion in retail sales in the world.

In the U. S. snack food industry, which includes candy, cookies and crackers as well as snack chips, Frito-Lay accounts for about 13% of sales. Dollar sales of our snack chips grew 8%. Frito-Lay pound volume was up 6%—and this strong performance came on top of 7% pound volume growth in 1989.

Outside the U.S., PFI is the largest producer of snack chips. The PFI system, comprised of more than 20

Snack Foods



Big Brands Worldwide

Introduced: 1981
Estimated 1990 Retail Sales:
\$143 Million

Introduced: 1938
Estimated 1990 Retail Sales:
\$726 Million

Introduced: 1958
Estimated 1990 Retail Sales:
\$1.1 Billion

Introduced: 1966
Estimated 1990 Retail Sales:
\$1.2 Billion

Introduced: 1948
Estimated 1990 Retail Sales:
\$638 Million



Introduced: 1986
Estimated 1990 Retail Sales:
\$136 Million

Introduced: 1932
Estimated 1990 Retail Sales:
\$629 Million

In 1990, we energized our major brands by introducing numerous line extensions in the U.S. and internationally. These new products include Chee-tos brand Flamin' Hot cheese flavored snacks, Doritos brand Jumpin' Jack flavor tortilla chips, Rold Gold brand Bavarian pretzels and Tostitos brand bite size tortilla chips. We also made Chee-tos brand cheese flavored Paws snacks in a unique shape to capture the spirit of Chester Cheetah, our advertising character.

In 1990 alone, these new items and established line extensions accounted for some \$2.1 billion in retail sales in the U.S.—an amount equal to the sales of a company that would rank in the top 40% of the Fortune 500.

company-owned and joint venture businesses, has about one-fourth of the international snack chips market. And there are still enormous opportunities. In fact, PFI is our fastest-growing division. In just the last three years through acquisitions and volume growth, we've nearly quadrupled sales and increased profits eightfold.

Marketing Strategies

Frito-Lay, the gold-standard of the U. S. snack chips industry, is the model for dramatic expansion overseas. These strategies made our brands leaders throughout the world.

Grow our brands through line extensions.

Today's consumers seek variety in snack tastes and shapes, but want consistent product quality they can trust. Line extensions fill those needs by taking a familiar product and making modifications, such as new seasonings, to create a different taste for a popular brand.

Create products to meet changing consumer preferences and needs.

More and more people today are concerned about diet and nutrition. Our low-oil Light line of snack chips—Doritos brand tortilla chips, Ruffles brand potato chips and Chee-tos brand cheese flavored snacks—is the linchpin of our strategy to meet the snacking needs of these consumers.

In 1989 we test-marketed a Light line of low-oil snack chips. In 1990 the Light items were expanded nationally. Already, the Light line has more than half of the light snack category sales.

Another new product created to meet changing consumer preferences is Sunchips brand multigrain snacks. Sunchips multigrain snacks are made from whole wheat, corn and other natural ingredients. We test-marketed them in late 1989. The results exceeded even our own high expectations and in 1991 we are expanding the brand nationally.

Develop products for fast-growing snack categories.

As consumers seek variety, pretzels and ready-to-eat popcorn are becoming more popular.

Smartfood brand cheddar cheese flavored popcorn is our latest entry in the ready-to-eat popcorn category. Since we acquired the brand in 1989, Smartfood popcorn has emerged as the number one ready-to-eat popcorn brand in the U.S. Using our marketing and research expertise, we're expanding the brand through mass media campaigns. We see considerable potential for the brand as we continue to grow the segment.

Pretzels are among the industry's fastest-growing product segments. To take advantage of this growth, in 1990 we relaunched Rold Gold brand pretzels throughout the U.S. with improved quality, new shapes, redesigned packaging and increased marketing support. This effort rocketed Rold Gold pretzels to the number one brand in the U.S. pretzel category.

Reproduce our U.S. successes in the international market.

In country after country, we are customizing our U.S. marketing techniques to adapt to each country's special characteristics.

In Mexico, for example, where sales climbed 25% in 1990, we featured the country's top female singing star in our commercials. In Canada, we introduced new bag sizes that give consumers better value, and we created snack news by introducing Smartfood brand popcorn and Crunch Tators brand Extra Crunchy potato chips.

We're also introducing our business systems internationally. We acquired Smiths Crisps and Walkers Crisps, two

leading snack chip companies in the United Kingdom, in mid 1989. Combined, they have nearly a 40% share of the U.K. snack chip market. They are a prime example of how we use our experience to grow our international snack food operations.

We've streamlined operations, improved efficiency and launched new products, including the very successful introduction of Chee-tos brand cheese flavored snacks. As a result, in 1990 retail sales of Smiths and Walkers climbed to more than \$700 million.

Operating Strategies

Our snack food business spans every aspect of snack food production, from agriculture to stacking supermarket shelves. During 1990 in the U.S. alone, Frito-Lay used 1.6 billion pounds of potatoes, 600 million pounds of corn and 55 million pounds of seasonings. We have 39 manufacturing plants in the U.S., more than 1,600 distribution facilities, and a route-sales team of more than 10,000 men and women who call on more than 400,000 retail customers each week.

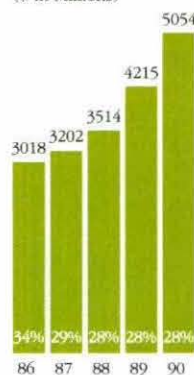
Our international snack food system is equally expansive. There are 54 plants, some 45,000 employees and more than 9,000 routes.

In 1990 Frito-Lay and PFI each used a key operating strategy to improve operating profits and expand our brands.

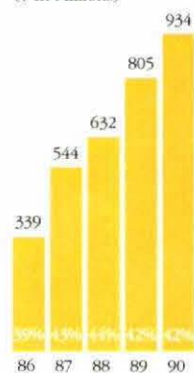
U.S.: Use technology to increase distribution.

One of the most significant breakthroughs for Frito-Lay operations came in 1988, when we supplied our salesforce with hand-held computers. Hand-held computers allow us to do everything we did before, only faster and more efficiently. Most importantly,

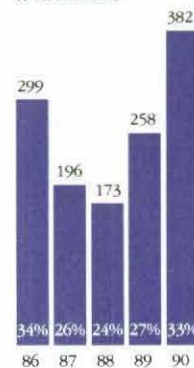
**Snack Foods
Net Sales**
% Of Total Net Sales
(\$ In Millions)



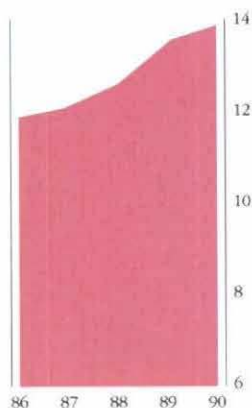
**Snack Foods
Operating Profits**
% Of Total Segments
Operating Profits
(\$ In Millions)



**Snack Foods
Capital Spending**
% Of Total Segments
Capital Spending
(\$ In Millions)

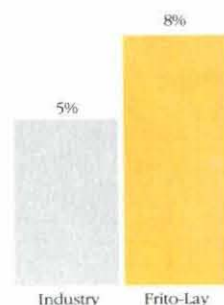


U.S. Snack Chips Consumption
(Lbs. Per Capita)



U.S. per capita consumption of snack chips reached nearly 14 pounds.

Frito-Lay Sales Growth vs. U.S. Snack Chips Industry Growth 1990



Sales of Frito-Lay products grew some 60% faster than sales in the snack chips industry.

Chairman's Outlook: Focus on International Opportunities

The best way to recognize the potential of our international snack food business is to understand the power of our domestic Frito-Lay business.

Frito-Lay is an extraordinary performer. Our goal is to replicate this performance internationally.

We've had great success. In fact, PFI profits increased at a compounded annual growth rate of 102% during the past three years, making it our third most profitable division.

We set the stage for growth by introducing our global brands—Ruffles, Doritos, Fritos, Cheetos and Lay's.

Then we keep our brands top-of-mind with clever marketing and interesting line extensions—like Fritos brand Texas Cheese flavor corn chips, a product we launched in Spain that's roping them in.

Global brands are one key to volume momentum at PFI. The Frito-Lay route sales system is another. Two years ago, for example, we started a route sales system in Portugal. Since then, volume has more than tripled and we gained 25 points in market share—which makes another country where we're number one in the snack chips category.

With the entire world to choose from, it's important to focus our resources on markets that offer the best prospects for profitable growth. Our strategy is to first focus on large, well developed snack markets, such as Mexico, Canada, Spain and the United Kingdom. Here we can

introduce a variety of products and use our systems to increase distribution and boost per capita consumption. These markets offer the potential of steadily increasing volumes, sales and operating profits.

Next, we focus on breakthrough markets, such as Brazil and Korea, where per capita consumption is still very low, but where there is a huge population base. These markets have the potential to support major snack food businesses in the future and to generate a significant portion of our future sales.

Finally, we focus on smaller markets, such as Portugal and Greece. While these markets face some geographic or demographic limitations, we can build our profitability by growing our market share and increasing productivity.

Over the next decade or so, we see tremendous potential in all three market groups. In fact, over the next five years we expect to double the number of countries where we have snack food operations to about 40. In 1990 we added Egypt and Indonesia.

As for 1991, our record international sales and operating profits, combined with solid results in the U.S., should continue to generate double-digit sales and operating profit growth in our snack foods segment.

—Wayne Calloway

use of hand-held computers allows us to quickly pinpoint marketing opportunities.

By continually updating and studying our huge sales data base:

- We can spot areas where our sales are comparatively low and quickly respond by increasing our advertising or promotions.
- We can monitor local buying trends. As consumer demand for a particular product increases, we increase retail inventories.
- And we can use the data to demonstrate to Frito-Lay retail customers how to improve their profitability. For example, data generated by actual sales results enabled us to show a California grocery chain how an investment of \$100 in Frito-Lay snack chips generated profits 30% greater than the same sum invested in other snack products.

This type of centralized information, combined with our decentralized organization, gives us the ability to respond quickly to changing market opportunities.

International: Expand through new businesses.

Mexico, where we have our most profitable international snack food operation, is a prime example of how we use innovative approaches to expand. Our main focus continues to be snack chips, but we are selectively broadening our product line to take advantage of distribution and category opportunities. In 1984 we founded Sonric's, a sweet snack business. Using our snack chips experience as a base, we developed and grew the business to the number two position in the category. Sonric's is now a major contributor to sales and profits in Mexico,

and it is growing even larger as we introduce a variety of new candy snacks from around the world.

In 1990 we added a third snack category by acquiring a majority interest in Gamesa, the number one cookie manufacturer in Mexico. Gamesa is our largest international food acquisition since the 1989 acquisitions of Smiths and Walkers. Eventually we expect Gamesa to account for more than a third of our Mexican snack food business. We plan to grow the cookie business and seek operating synergies with our snack chips and sweet snack businesses.

Management's Analysis

(Note: the following discussion should be read in conjunction with "Business Segments" on page 34 and "Management's Analysis—Results of Operations" on page 37.)

1990 vs. 1989

Worldwide net sales rose 20% to \$5.1 billion. Excluding the first year impact of the July 1989 acquisitions of Smiths and Walkers in the United Kingdom (U.K. operations), worldwide net sales increased 14%. (Comparisons excluding the first year impact of the U.K. operations are determined by excluding from reported 1990 amounts the results of the U.K. operations for the corresponding period that such operations were not reflected in reported 1989 amounts.)

Domestic net sales grew \$260 million (8%) to \$3.5 billion with strong volume growth contributing over 70% of the increase. The remaining growth was due principally to increased prices.

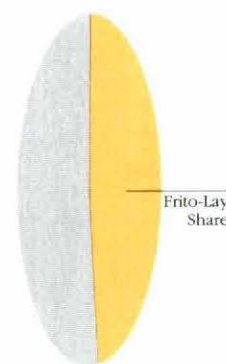
International net sales increased 58% to \$1.6 billion. Excluding the first year

U.S. Snack Food Industry Retail Sales Frito-Lay Share



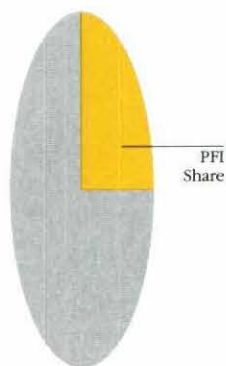
U.S. retail sales of snack foods exceed \$37 billion. Frito-Lay's share of this market is \$4.9 billion, about 13%.

U.S. Snack Chips Industry Retail Sales Frito-Lay Share



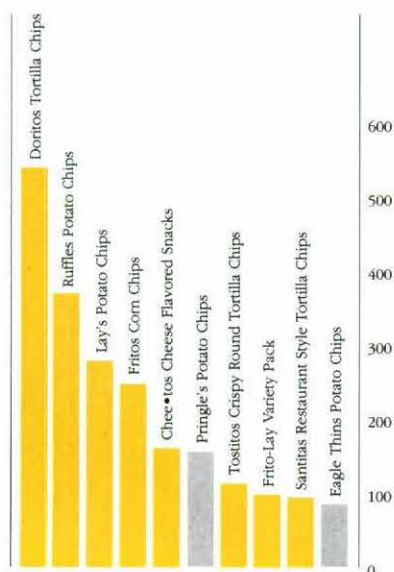
Frito-Lay accounts for nearly half of the retail sales in the \$9.8 billion U.S. snack chips and packaged popcorn segment.

International Snack Chips Industry Retail Sales PFI Share



International retail sales of snack chips total nearly \$12 billion. The PFI system is more than one-quarter of this market.

Top-Selling Snack Chips Items In U.S. Supermarkets (Sales In \$ Millions)



Eight of Frito-Lay's brands are among the 10 best-selling snack chips items in U.S. supermarkets.
(Based on IRI InfoScan Service® data)

impact of the U.K. operations, international net sales increased \$328 million (33%). Strong volume gains contributed 40% of this increase while the favorable translation impact of a weaker U.S. dollar added another 27%. The balance of the growth reflected price increases and a small acquisition.

Total domestic pound sales advanced 6% in 1990. This growth was led by increases in Santitas brand tortilla chips, Crunch Tators and Ruffles brands potato chips, Rold Gold brand pretzels and Chee-tos brand cheese flavored snacks, partially offset by declines in Fritos brand corn chips. International snack chips kilo growth was 11%, with even stronger gains in Mexico and Spain partially offset by a slight decline in the U.K. This growth rate includes the U.K. operations for only the second half of 1990 and 1989. Kilo performance in the U.K. reflected softness in certain potato chip brands and lower private label shipments. Introductions of Frito-Lay's global brands are expected to stimulate volume growth in the U.K.

Worldwide operating profits increased 16% to \$934 million. Operating profits in 1990 included unusual charges of \$10.6 million for receivables exposures related to highly leveraged domestic retail customers. Profits in 1989 included a domestic net unusual charge of \$2.3 million consisting of a \$6.6 million reorganization charge partially offset by a \$4.3 million credit resulting from a decision to retain a cookie production plant previously held for sale. Excluding the 1990 and 1989 unusual items and the first year impact of the U.K. operations, worldwide operating profits grew 14%.

Amortization of goodwill and other intangibles (principally international) was \$37 million in 1990 and \$18 million in 1989, with the increase reflecting the acquisition of the U.K. operations.

Domestic operating profits grew 10% to \$732 million. Excluding the 1990 and 1989 unusual items, operating profits advanced \$73 million (11%). Volume growth contributed \$122 million of the profit increase. Partially offsetting the volume related growth were higher promotional and other operating expenses, due in part to new product introductions, that exceeded the combined effect of price increases and lower costs of potatoes and cooking oils. The domestic operating profit margin, excluding unusual items, grew one-half point to 21.4%.

International operating profits advanced 47% to \$202 million. Excluding the first year impact of the U.K. operations, profits increased \$40 million (29%). Of this increase, volume growth contributed \$81 million and the favorable translation impact of a weaker U.S. dollar contributed \$12 million. Partially offsetting these benefits were operating cost increases in excess of price increases. The international profit advance was driven by results in Mexico that reflected the strong volume growth. The U.K. and Spain also contributed to the operating profit increase. The U.K.'s profit advance was primarily the result of price increases, lower pension expense and a favorable translation impact, while Spain's results reflected the strong volume growth and a favorable translation impact.

The international operating profit margin, including the U.K. operations,

decreased almost one point to 12.8% principally as a result of the goodwill amortization related to the U.K. operations.

1989 vs. 1988

Worldwide net sales rose 20% to \$4.2 billion. Excluding the impact of the U.K. operations and the absence in 1989 of the previously consolidated Canadian operation (contributed to a joint venture in late 1988), worldwide net sales increased 16%.

Domestic net sales grew \$278 million (9%) to \$3.2 billion with strong volume growth contributing over 55% of the increase. The remaining growth was due principally to increased prices. The favorable impact of the Smartfood brand popcorn acquisition was offset by the effect of one more week in the 1988 reporting period.

International net sales increased 73% to \$1.0 billion. Excluding the U.K. and Canadian operations, international net sales increased \$257 million (51%). Strong volume gains accounted for approximately 60% of this increase with the remainder due principally to increased prices, partially offset by the impact of one more week in 1988.

Total domestic pound shipments advanced 7%. This growth reflected the success of new flavor line extensions and was led by increases in Fritos brand corn chips, Santitas brand tortilla chips, Ruffles brand potato chips and Doritos brand tortilla chips. Excluding the U.K. and Canadian operations, international snack chips kilo growth was 32%, driven by strong gains in Mexico, Brazil and Spain. Pound and kilo growth data have been

adjusted to eliminate the effect of one more week in 1988.

Worldwide operating profits were up 27% to \$805 million. Amortization of goodwill and other intangibles (principally international) was \$18 million in 1989 and \$1 million in 1988, with the increase reflecting the acquisition of the U.K. operations. Excluding the U.K. and Canadian operations, worldwide operating profits were up 23%.

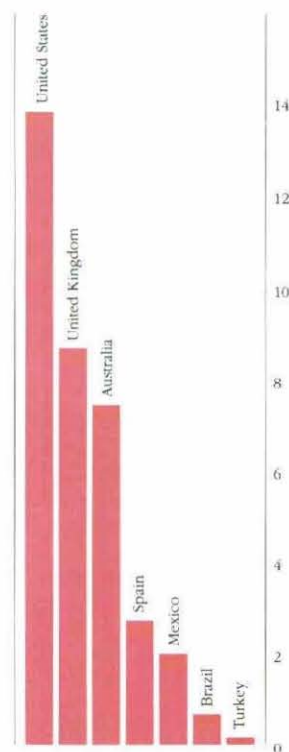
Domestic operating profits grew \$81 million (14%) to \$668 million. Strong volume gains contributed over \$100 million in operating profit growth; this increase was reduced by higher commodity costs, particularly for potatoes and cooking oils, and increased promotional spending, which were partially offset by increased prices.

Additionally, domestic results in 1989 were negatively affected by one more week in 1988 and the \$2.3 million net unusual charge that is described above. The domestic operating profit margin grew almost one point to 20.8%.

International operating profits increased 204% to \$137 million. Excluding the U.K. and Canadian operations, international profits increased \$63 million (138%). Led by Mexico, Spain and Brazil, significant volume gains accounted for about 85% of the dollar increase. The remaining growth was due to increased prices in excess of cost increases.

The international operating profit margin jumped almost 6 points to 13.7% due principally to volume growth in existing operations. This margin comparison includes the U.K. operations in 1989 and the Canadian operation in 1988.

International Snack Chips Consumption vs. U.S. Consumption
(Lbs. Per Capita)



Steadily growing per capita consumption of snack chips around the world means opportunities for PepsiCo's international snack foods business.

Pizza Hut Taco Bell KFC

(\$ in Millions)

Sales	\$6,226
% Change	+ 19
Operating Profits	\$ 522
% Change	+ 26
Profit Margin%*	8.8
Point Change	+ .7

	Pizza Hut	Taco Bell	KFC
Sales	\$2,950	\$1,746	\$1,530
% Change	+ 20	+ 19	+ 15
Operating Profits	\$ 246	\$ 150	\$ 127
% Change	+ 20	+ 37	+ 28
Profit Margin %*	9.0	8.8	8.6
Point Change	+ .6	+ 1.0	+ .5
System Sales	\$4,923	\$2,442	\$5,773
% Change	+ 20	+ 18	+ 7

*Excludes unusual items described on page 35.

Operating Highlights

- **Company sales soar: Pizza Hut up 20%; Taco Bell up 19% and KFC up 15%.**
- **Taco Bell continues to revolutionize the quick service restaurant industry with new three-tier value menu.**
- **Pizza Hut Delivery now accounts for one-fifth of U.S. system sales.**
- **KFC transforms its image and improves its market performance with new menu items, such as Hot Wings and Lite 'n Crispy Chicken.**
- **PepsiCo restaurant chains add 1,017 units—an average of three per day.**
- **PepsiCo restaurant chains generate strong increases in U.S. company-owned same store sales: Taco Bell up 13%, Pizza Hut up 7% and KFC up 5%.**

Industry Position

It was a fiercely competitive year in the U.S. quick service restaurant industry. The industry reported retail sales of nearly \$70 billion and a growth rate of 6%. But many quick service chains had problems maintaining strong profit growth during the year.

PepsiCo's restaurant chains had an excellent year.

In the U.S., PepsiCo's restaurant system consists of 14,921 company-owned and franchised units. The system grew 13% to \$9.4 billion—more than twice as fast as the U.S. industry.

The international quick service restaurant industry is already large, though still in its infancy. In the U.S., there is one quick service restaurant for every 1,400 people or so. Internationally, there's only one quick service restaurant for every 100,000 people.

With more restaurants in our system than any competitor, both in the U.S. and internationally, PepsiCo is leading the international expansion of the quick service industry. In 1990, the 4,579 international units in our system (company-owned, joint venture and franchised) generated \$3.7 billion in sales, an increase of 14%.

Worldwide sales of our system's 19,500 restaurants top \$13 billion.

Each chain is a leader in its category.

• **Pizza Hut is the leading pizza chain in the world.** The Pizza Hut system now has a 24% share of the \$15.8 billion U.S. pizza category. Its system sales reached \$3.8 billion in the U.S. In 1990, U.S. company-owned same store sales climbed 7%. In 60 countries, international Pizza Hut system sales climbed to \$1.1 billion. Together they form Pizza Hut Worldwide, with \$4.9 billion in total system sales.



TACO BELL

KFC

Big Brands Worldwide

KFC

Acquired: 1986
Estimated 1990 Retail Sales:
\$5.8 Billion

Taco Bell

Acquired: 1978
Estimated 1990 Retail Sales:
\$2.4 Billion

Pizza Hut

Acquired: 1977
Estimated 1990 Retail Sales:
\$4.9 Billion



- KFC is the world's leading chicken chain. Its domestic system sales of \$3.2 billion represent 50% of the \$6.4 billion U.S. chicken restaurant category. In 1990, U.S. company-owned same store sales grew 5%. Internationally, KFC is in 57 countries and has system sales of \$2.6 billion, up 7%, bringing total KFC system sales to \$5.8 billion.
- Taco Bell is the leading U.S. Mexican-style food chain, with some 70% of the \$3.5 billion category. System sales reached a new high of \$2.4 billion. In 1990, U.S. company-owned same store sales grew 13%. Taco Bell is just beginning to expand internationally with restaurants now in eight countries.

Marketing Strategies

Taco Bell: Provide the best value in the quick service industry.

In 1990 Taco Bell led the way in providing consumers with more value for their food dollar. Since the introduction of its value menu in 1988, sales and transaction growth at Taco Bell have soared beyond anything seen in

the industry. Today, Taco Bell has 60% more customer transactions than it did just two years ago.

To keep consumers focused on the excellent value they receive, Taco Bell has now introduced the three-tier value menu. The three-tier value menu offers customers a wide variety of products within three low price points (59¢, 79¢ and 99¢ in most markets). Thus, Taco Bell is inviting customers to choose both the products and the prices they want.

Pizza Hut: Evolve from a sit-down restaurant to a pizza distribution company...and create lots of product news!

Pizza Hut began as a sit-down concept. Today, Pizza Hut means pizza—no matter where. Pizza Hut home delivery, rolled out in 1985, currently accounts for about one-fifth of U.S. system sales. Company-owned Pizza Hut Delivery units are generating sales at twice the rate as when delivery was introduced.

Pizza Hut is aggressively pursuing other distribution opportunities. For example, we're opening free-standing kiosks that prepare and sell Pizza Hut products wherever potential customers may be—from airports to stadiums.

Most importantly, Pizza Hut is expanding without sacrificing quality. In 1990 for the seventh straight year, Pizza Hut was named America's favorite pizza chain in a consumer poll conducted by Restaurants and Institutions magazine.

In the product news department, Pizza Hut made Tuesday night "Kids Night" and created traffic jams on a night that used to be slow. They've also created scores of variations on traditional pizza from Veggie Lover's to Pepperoni Lover's. There were lots

of reasons for a consumer to try Pizza Hut in 1990.

KFC: Expand consumer base by introducing new products and a more contemporary image.

At KFC, our new menu includes snacks, lunch and lower-fat chicken products. The most successful product in 1990—in fact, the most successful new product in KFC's history—was Hot Wings, a spicy chicken snack. KFC is now bringing out Lite 'n Crispy chicken, a skin-free fried chicken that is lower in fat, calories, sodium and cholesterol than traditional KFC chicken. Lite 'n Crispy will be available nationally in 1991.

KFC's new logo—the initials KFC (instead of the words Kentucky Fried Chicken) featured with the widely recognized image of Founder Colonel Harland Sanders—calls attention to the chain's broader and more contemporary menu.

International: Expand the PepsiCo restaurant system worldwide.

In 1990 we reorganized our restaurant operations to accelerate growth. The new organization merges the international operations of Pizza Hut and Taco Bell with their domestic counterparts.

International strategies are similar to U.S. strategies: Provide quality products and value, and increase distribution. The success of these strategies has made our chains international leaders and provides a firm foundation for expansion.

Pizza Hut is the category leader in 53 countries. And we're expanding our markets quickly. In the Soviet Union, our joint venture opened two restaurants in Moscow to much fanfare, and in China, our franchisee

opened a unit in Beijing. These restaurants are introducing our Pizza Hut products to two of the most populous nations in the world. We also entered Ireland, Greece, Israel and Macau. In all, we added 185 units to the international Pizza Hut system in 1990—about one every two days.

Chicken is popular in virtually every country around the world. As a result, KFC international operations have been consistently strong. System sales have been growing at a compound annual rate of more than 25% since 1985, and are continuing to show strong growth as we expand into more countries with more units. The KFC system is the second largest international restaurant chain in the world. In 1990 we added another 194 units to the system, and we see even greater potential.

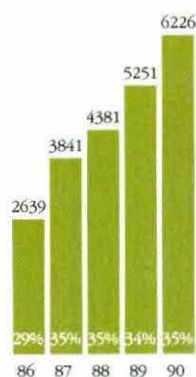
Operating Strategies

From purchasing raw materials to buying real estate, the world's largest restaurant system demands some of the world's largest operating systems. In the U.S., Pizza Hut alone buys 250 million pounds of cheese each year, Taco Bell uses 2.2 billion tortilla shells and KFC cooks nearly 600 million chickens.

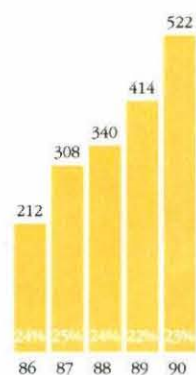
Our needs are growing as our chains expand. The chart on page 30 summarizes our system restaurant unit growth. We've opened 1,017 additional units where our products can be found.

Clearly, any action we take to reduce costs and improve efficiency in our operations can have a significant effect. In 1990, these productivity measures contributed to company operating profit growth of 26%—more than \$100 million in very real money.

**Restaurants
Net Sales**
% Of Total Net Sales
(\$ In Millions)



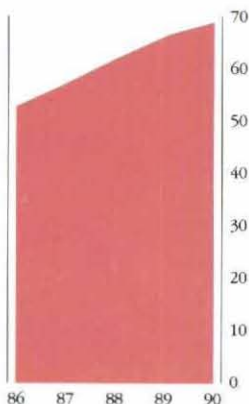
**Restaurants
Operating Profits**
% Of Total Segments
Operating Profits
(\$ In Millions)



**Restaurants
Capital Spending**
% Of Total Segments
Capital Spending
(\$ In Millions)

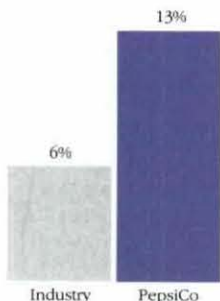


U.S. Quick Service Restaurant Sales
(\$ In Billions)



U.S. quick service restaurant sales reached a new high of nearly \$70 billion.

PepsiCo U.S. Restaurant System Sales Growth vs. U.S. Quick Service Industry Growth 1990



PepsiCo's U.S. restaurant system grew more than twice as fast as the quick service restaurant industry.

Chairman's Outlook: Focus on International Opportunities

The success of PepsiCo's restaurants in the United States is well documented. In the face of tough competition in the U.S. quick service restaurant industry, our chains are generating exceptional results. Pizza Hut, for example, has had 44 consecutive months of same store sales growth in U.S. company-owned operations. Taco Bell U.S. company-owned operations increased same store sales by 13% in 1990. KFC is generating strong growth with new products and a new image, resulting in U.S. company-owned same store sales growth of 5%.

PepsiCo's growth opportunities overseas are even bigger than those in the U.S. Did you know that KFC is the second largest international restaurant chain? Or that Pizza Hut is the third largest?

We're in an excellent position to take advantage of trends that are currently accelerating growth in the international quick service restaurant industry. For example, demographic trends overseas are beginning to look very similar to those in the U.S. Incomes are generally rising. More women are in the workforce. And prepared and convenience foods are becoming readily accepted. Similarly, people everywhere are becoming concerned about their diets.

We'll capitalize on these trends in three ways:

- We'll add units to existing markets. Although KFC and Pizza Hut are each in about 60 countries, most of their units are in three or four

markets: the U.K., Canada, Australia and, in the case of KFC, Japan. This leaves many markets significantly underpenetrated.

- We'll increase store revenues. We use product news and promotions, but we're also adding non-traditional distribution channels.

Pizza Hut not only offers delivery in several countries, it's building kiosks, offering express service and adding windows where consumers can buy pizza by the slice.

- We'll enter new countries. Our first thrust is to grow our chains in markets where quick service restaurants and our products are well known – Western Europe and the Pacific Rim, for example.

A second thrust is to penetrate new markets, such as the Soviet Union, where there is huge potential but virtually no quick service industry. Here we have to educate consumers about our products and build an infrastructure. The rewards for pioneering the quick service industry can be immense. It's interesting to note that the biggest KFC restaurant in the world is in China.

Our final focus is on smaller, yet solid markets, such as Greece and Israel. Here we can build strong, steadily performing businesses, even though the number of potential consumers is less than in a huge nation like the Soviet Union.

Our expanding international restaurant presence, along with continuing U.S. growth, should result in double-digit increases in our sales and operating profits in 1991 and well into the future.

—Wayne Calloway

Use new technology to improve service and margins.

Technology is improving efficiency throughout our chains. Pizza Hut, for example, is using computers to process customer orders, forecast sales, schedule labor and handle a variety of administrative tasks. Better forecasting of needs has reduced costs.

At KFC, improved labor management systems combined with centralized preparation of some products helped generate labor savings of nearly \$14 million in 1990.

Taco Bell is using new technology and automation to reduce kitchen size and improve speed of service. In fact, faster preparation of products has cut customer waiting time in half.

Improve purchasing and supply distribution.

We're reducing the cost of supplying restaurants in our U.S. system. In 1981 PepsiCo created PFS, our food service supply and distribution unit. PFS Worldwide now ranks as the fourth-largest food service distributor in the U.S., servicing nearly 11,000 Pizza Hut, Taco Bell and KFC restaurants. It offers a full range of products, including foods, equipment, decor items, uniforms, cleaning supplies and virtually everything else our restaurants need to operate. Now we're expanding by serving more domestic and international restaurants.

Management's Analysis
(Note: the following discussion should be read in conjunction with "Business Segments" on page 34 and "Management's Analysis—Results of Operations" on page 37.)

1990 vs. 1989

Worldwide net sales increased 19% to \$6.2 billion. Domestic net sales

increased 18% to \$5.5 billion and international net sales increased 21% to \$685 million. This growth was primarily due to additional units (both constructed and acquired from franchisees) and volume gains. Worldwide operating profits improved 26% to \$522 million, with domestic operating profits up 25% to \$447 million and international operating profits up 30% to \$75 million.

Results in 1990 included unusual charges of \$17.6 million for closures of underperforming units (almost all domestic) as follows: \$9.0 million at Pizza Hut, \$4.0 million at Taco Bell and \$4.6 million at KFC. PepsiCo regularly monitors the performance of restaurant units and, on a recurring basis, records charges for intended closures of specific underperforming units. In 1990, an intensive review was performed to strengthen the overall restaurant portfolio, resulting in an unusual increase in the level of unit closures.

Unusual charges in 1990 at Pizza Hut also included \$8.0 million to consolidate domestic field operations and \$2.4 million to relocate international headquarters. Results in 1989 included reorganization charges of \$8.0 million at KFC and \$5.5 million at Taco Bell to consolidate domestic field operations.

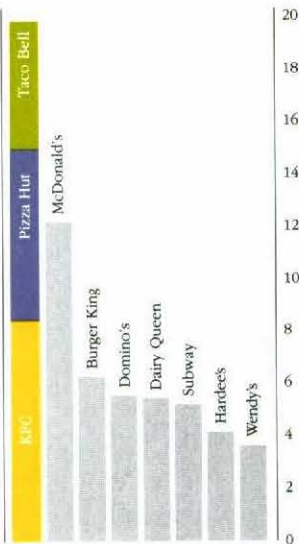
Excluding the 1990 and 1989 unusual charges, worldwide, domestic and international profits increased 29%, 28% and 35%, respectively. The worldwide growth reflected the volume increases, additional units and higher franchise royalty revenues, partially offset by value-oriented pricing strategies and higher unit operating expenses. KFC International comprises over 60% of PepsiCo's international

U.S. Quick Service Restaurant Industry Retail Sales
PepsiCo Share



PepsiCo's U.S. restaurant system sales of \$9.4 billion account for more than one-eighth of the total quick service industry.

Largest Worldwide Restaurant Systems
(Units in Thousands)



The combined units of KFC, Pizza Hut and Taco Bell make PepsiCo the largest restaurant system in the world.

Restaurant Unit Growth

Number of System Units Worldwide (Year-end 1985-1990)

Year	KFC	Pizza Hut	Taco Bell	Total
1985	6,396	4,980	2,193	13,569
1986	6,575	5,646	2,443	14,664
1987	7,522	6,210	2,738	16,470
1988	7,761	6,662	2,930	17,353
1989	7,948	7,410	3,125	18,483
1990	8,187	8,040	3,273	19,500
Five Year Compounded Annual Growth Rate				
	5.1%	10.1%	8.3%	7.5%
Totals include KFC, acquired October 1, 1986, as though it were part of PepsiCo since 1985.				

Number of System Units Worldwide (Year-end 1990)

	KFC	Pizza Hut	Taco Bell	Total
<u>United States</u>				
Company	1,389	3,658	1,851	6,898
Franchise	3,617	3,030	1,376	8,023
Total U.S.	5,006	6,688	3,227	14,921
<u>International</u>				
Company	418	294	28	740
Joint Venture	416	278	-	694
Franchise	2,347	780	18	3,145
Total International	3,181	1,352	46	4,579
Total Worldwide	8,187	8,040	3,273	19,500

PepsiCo is adding restaurant units around the world at the rate of about three per day.

Restaurant Sales Growth

Average Domestic System Sales Per Unit (Thousands)

	1985	1986	1987	1988	1989	1990	5 Yr. % Growth
KFC	\$502	\$529	\$558	\$597	\$607	\$650	5.3
PH	457	468	490	520	570	607	5.8
TB	550	560	579	589	686	771	7.0

Domestic and International System Sales (Billions)

	1985	1986	1987	1988	1989	1990	5 Yr. % Growth
KFC	\$3.1	\$3.5	\$4.1	\$ 5.0	\$ 5.4	\$ 5.8	13.3
PH	2.2	2.5	2.9	3.4	4.1	4.9	17.4
TB	1.1	1.3	1.5	1.6	2.1	2.4	16.9
Total	\$6.4	\$7.3	\$8.5	\$10.0	\$11.6	\$13.1	15.4
Totals include KFC, acquired October 1, 1986, as though it were part of PepsiCo since 1985.							

restaurant net sales and almost 80% of operating profits.

Pizza Hut's worldwide net sales increased \$496 million (20%) to \$2.9 billion. Of the sales increase, 65% was due to additional units and 25% came from volume gains. Increased prices and higher franchise royalty revenues also aided sales growth. Worldwide operating profits increased 20% to \$246 million. The home delivery business was a major contributor to sales and profit growth. Excluding 1990 unusual charges, profits advanced \$60 million (29%). Of this profit growth, \$41 million was due to volume gains and \$20 million came from additional units. Higher franchise royalty revenues, reflecting a new domestic franchise agreement and increased sales by franchisees, also aided the profit increase. Partially offsetting these benefits were higher food and other operating costs in excess of price increases. Domestic company-owned same store sales advanced 7% for 1990.

International net sales and operating profits posted strong double-digit growth, reflecting higher franchise royalty revenues, additional units and an improved performance in Australia delivery operations. Amortization of goodwill and other intangibles (principally domestic) was \$20 million in 1990 and \$11 million in 1989, with the increase reflecting acquisitions of domestic franchisees. The worldwide operating profit margin, excluding the unusual charges, increased over one-half point to 9.0%.

Taco Bell's worldwide net sales increased \$280 million (19%) to \$1.7 billion. Driven by the continued success of a value-oriented menu introduced in late 1988, volume gains contributed \$255 million of the net

sales growth and additional units provided \$69 million. Partially offsetting these benefits were lower menu prices. Worldwide operating profits grew 37% to \$150 million. Excluding 1990 and 1989 unusual charges, operating profits advanced \$39 million (34%). Volume growth contributed \$116 million to this profit increase and additional units provided \$10 million. Profit growth was aided by lower field management costs and higher franchise royalty revenues. Partially offsetting these benefits were lower menu prices and higher food and labor costs. Domestic company-owned same store sales grew 13% though volume growth was higher.

International net sales posted double-digit growth while operating losses decreased on a small base. Amortization of domestic goodwill and other intangibles was \$8 million in 1990 and \$9 million in 1989. The worldwide operating profit margin, excluding the unusual charges, increased one point to 8.8%.

KFC's worldwide net sales rose \$199 million (15%) to \$1.5 billion. Of this increase, \$123 million came from additional units and \$102 million was due to volume gains. Higher franchise royalty revenues also contributed to the growth. These increases were partially offset by domestic value-oriented price promotions. Worldwide operating profits increased 28% to \$127 million. Excluding 1990 and 1989 unusual charges, profits advanced \$24 million (22%). Volume gains contributed \$52 million and additional units provided \$18 million of this increase. Higher franchise royalty revenues and increased labor productivity also aided profit growth. These increases were partially offset by the domestic price

promotions, increased international field management costs and higher unit operating expenses.

Amortization of goodwill and other intangibles was \$12 million in 1990 and \$9 million in 1989, with the increase reflecting acquisitions of domestic and international franchisees. The worldwide operating profit margin, excluding the unusual charges, increased one-half point to 8.6%.

A double-digit improvement in KFC's domestic net sales reflected strong volume growth, aided by the new Hot Wings product, and additional units, partially offset by the price promotions. Excluding the 1990 and 1989 unusual charges, domestic operating profits increased at a strong double-digit rate, reflecting the volume growth, additional units and increased labor productivity, partially offset by the price promotions. Domestic company-owned same store sales increased 5% though volume grew at a double-digit rate.

Led by Australia and Mexico, KFC's international net sales posted strong double-digit growth, principally reflecting additional units and price increases. International operating profits grew at strong double-digit rates, principally due to higher franchise royalty revenues, additional units and volume gains. Partially offsetting these increases were higher field management and other operating expenses in excess of price increases.

1989 vs. 1988

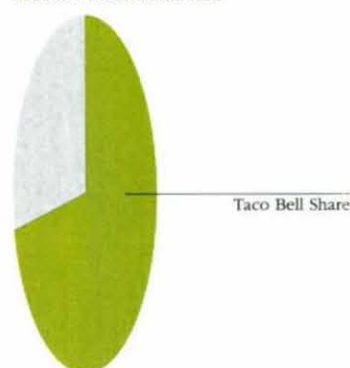
Worldwide net sales increased 20% to \$5.3 billion. Domestic net sales grew 19% to \$4.7 billion and international net sales increased 31% to \$566 million. These performances were due primarily to double-digit volume gains

at Taco Bell and Pizza Hut and to additional units.

Worldwide operating profits improved 22% to \$414 million, with domestic operating profits up 19% to \$356 million. International profits rose 38% to \$58 million. Excluding 1989 unusual charges of \$8.0 million at KFC and \$5.5 million at Taco Bell to consolidate domestic field operations, worldwide and domestic operating profits improved 26% and 24%, respectively. This growth reflected the volume increases, additional units, higher franchise royalty revenues and price increases at Pizza Hut and KFC, partially offset by higher food and other operating costs, and lower menu prices at Taco Bell. The growth in company-owned same store sales presented below has been adjusted to eliminate the impact of one more week in the 1988 reporting period.

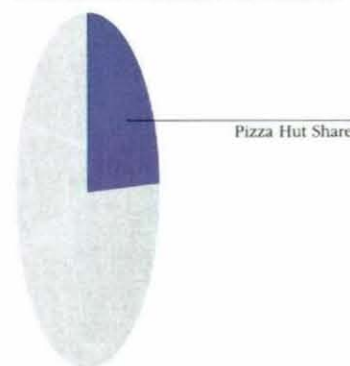
Pizza Hut's worldwide net sales increased \$439 million (22%) to \$2.5 billion. Of this increase, 45% was due to additional units and 30% came from volume gains. The balance reflected increased prices, a sales mix shift to higher-priced menu items and higher franchise royalty revenues, partially offset by the impact of one more week in 1988. Worldwide operating profits increased \$56 million (37%) to \$206 million. Volume gains contributed almost 45% and additional units provided 30% of this growth. The balance of the growth in operating profits was principally due to price increases and higher franchise royalty revenues, partially offset by higher food costs. The impact of one more week in 1988 was offset by lower provisions for unit closures in 1989. Amortization of goodwill and other intangibles (principally domestic) was \$11 million in 1989 and

U.S. Mexican-Style Restaurant Market



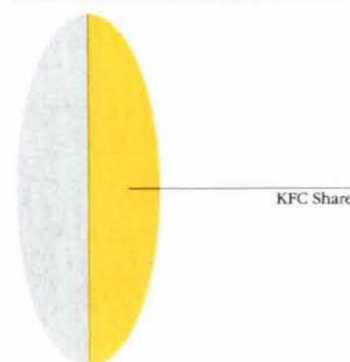
With U.S. system sales of \$2.4 billion, Taco Bell, at nearly 70%, is the leader in the \$3.5 billion U.S. Mexican-style restaurant category.

U.S. Pizza Restaurant Market



With 1990 U.S. system sales of \$3.8 billion, Pizza Hut, at 24%, is the leading pizza chain in the \$15.8 billion U.S. pizza category.

U.S. Chicken Restaurant Market



With U.S. system sales of \$3.2 billion, KFC, at 50%, is the leader in the \$6.4 billion U.S. quick service chicken restaurant category.

\$7 million in 1988, with the increase principally reflecting acquisitions of domestic franchisees. Domestic company-owned same store sales advanced 12%.

International net sales and operating profits posted very strong double-digit growth on a small base, primarily due to volume gains, additional units and higher franchise royalty revenues. The worldwide operating profit margin grew one point to 8.4%.

Taco Bell's worldwide net sales grew \$309 million (27%) to \$1.5 billion. Of the sales growth, over \$330 million came from volume gains and \$75 million was due to additional units. These increases were partially offset by lower menu prices and the effect of one more week in 1988. Worldwide operating profits increased 44% to \$109 million. Excluding the 1989 unusual charge, operating profits increased \$39 million (52%). Volume gains contributed over \$90 million and additional units provided over \$10 million of the profit growth. Franchise royalty revenues also rose sharply. These increases were reduced by lower menu prices, higher food and labor costs and the impact of one more week in 1988. Amortization of domestic goodwill and other intangibles was \$9 million in both 1989 and 1988. Domestic company-owned same store sales grew 19% though volume growth was substantially higher.

International net sales rose at strong double-digit rates, but operating losses increased on a small base. The worldwide operating profit margin, excluding the unusual charge, improved almost one and one-half points to 7.8%.

KFC's worldwide net sales rose \$122 million (10%) to \$1.3 billion. Addi-

tional units represented 60% of this growth, about one-third of which was offset by lower volumes, with the balance due primarily to higher pricing. Worldwide operating profits declined 14% to \$99 million. Excluding the 1989 unusual charge, worldwide operating profits fell \$8 million (7%). The decline principally reflected lower volumes (\$10 million). The favorable impact of additional units (\$10 million) and higher franchise royalty revenues was offset by higher food and other operating costs in excess of price increases. Because of the transition from calendar-year reporting to PepsiCo's period reporting, KFC's results were not affected by one more week in 1988.

Amortization of goodwill and other intangibles was \$9 million in 1989 and \$10 million in 1988. The worldwide operating profit margin, excluding the unusual charge, declined approximately one and one-half points to 8.1%.

KFC's domestic net sales increased slightly primarily due to increased prices, as growth from additional units was offset by declines in volumes. Domestic company-owned same store sales were about even with the prior year. Domestic operating profits declined principally due to decreased volumes and higher food and other operating costs, partially offset by increased prices and additional units. Led by Australia, New Zealand, and Canada, international net sales posted strong double-digit growth reflecting additional units, increased prices and solid volume increases. International operating profits grew at a strong double-digit rate principally due to increased volumes, additional units and higher franchise royalty revenues.



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What's News

Business and Finance

Pushing the Limits
Along the U.S. border, Mexican businessmen are pushing the limits of the country's economic liberalization. They are trying to get the economy to open up to the world, and they are trying to get the government to stop interfering with the market.

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Bonds

Commodities

Currencies

Real Estate

Technology

Energy

Environment

Health

Education

Transportation

Defense

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Business Segments

This information constitutes a Note to the Consolidated Financial Statements. (tabular dollars in millions)

PepsiCo operates on a worldwide basis within three industry segments: soft drinks, snack foods and restaurants. Management's discussion and analysis of PepsiCo's industry segments is presented in the text beginning on pages 13, 21 and 29 under the caption "Management's Analysis."

The soft drinks segment primarily manufactures concentrates and markets Pepsi-Cola, Mountain Dew, Slice and their allied brands worldwide and 7UP internationally; and operates soft drink bottling businesses principally in the United States. The soft drinks segment data reflect a number of acquisitions of franchised bottlers, the largest of which were the domestic bottling businesses of General Cinema Corporation and Grand Metropolitan Incorporated acquired in 1989 and 1988, respectively.

The snack foods segment primarily manufactures and markets snack chips. The snack foods segment data reflect the 1989 acquisitions of Smiths Crisps Limited and Walkers Crisps Holdings Limited (the U.K. operations), which manufacture and market snack chips in the United Kingdom.

The restaurants segment data include the operations of Pizza Hut, Taco Bell and Kentucky Fried Chicken (KFC) and reflect the acquisitions of several franchised domestic and international restaurant operators, which were not significant in the aggregate. Restaurant net sales include net sales by company-owned restaurants, initial franchise fees, royalty and rental payments from restaurants operated by franchisees, gains on sales of restaurant businesses and net sales to franchisees by PFS, PepsiCo's restaurant distribution operation.

All acquisitions were accounted for under the purchase method and, accordingly, the results of the acquired businesses are included from their respective dates of acquisition. (See Note to Consolidated Financial Statements on page 43.) The acquisition of the U.K. operations had a significant impact on PepsiCo's international operations, as reflected in the international data presented.

Net corporate expenses consist primarily of interest expense, interest income and other corporate items that are not allocated to the business segments. Beginning in 1990, no interest income was allocated to the segments. The portion of interest income previously allocated consisted principally of interest income on certain international short-term investments and on domestic capital sublease receivables. This change provides more meaningful comparisons, as movements in balances of the investments and sublease receivables due to any future changes in corporate controlled investing/financing strategies could distort the rate of operating profit growth of the related business segment. Further, a current review of industry reporting practices supports the exclusion of interest income of this nature from segment operating profits. To improve comparability, segment operating profits for 1989 and 1988 have been restated to reclassify interest income of \$36.5 million and \$22.8 million, respectively, to Interest and Other Corporate Expenses, Net. Also, segment identifiable assets for 1989 and 1988 have been restated to reclassify the combined related international portfolios and domestic capital sublease receivables of \$124.8 million and \$157.6 million, respectively, to Corporate Assets.

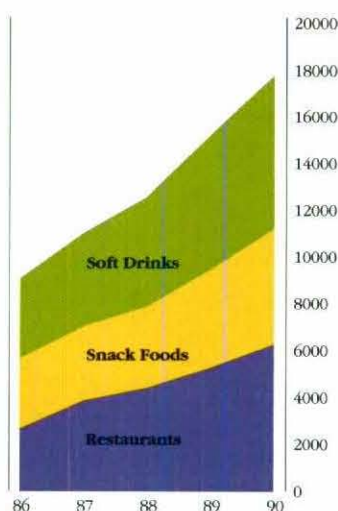
PepsiCo has invested in a number of joint ventures in which it exercises significant influence, but not control. Equity in net income of these affiliates, which is also included in net corporate expenses, was \$2.0 million, \$13.4 million and \$15.8 million in 1990, 1989 and 1988, respectively. The decline in 1990 reflects a \$15.9 million unusual charge to reduce the carrying value of a Pizza Hut international joint venture investment. The investments in affiliates and related equity in net income are not material to the industry segment data.

Corporate identifiable assets consist principally of offshore short-term investments and investments in affiliates. PepsiCo's investments in affiliates totaled \$1.1 billion, \$676 million and \$500 million at year-end 1990, 1989 and 1988, respectively. At year-end 1990, the largest of these investments consisted of \$327 million in a Mexican cookie business acquired in late 1990. Other joint venture investments included \$204 million in a domestic franchised bottler, \$119 million in the KFC Japan joint venture and \$78 million in a Canadian snack food operation.

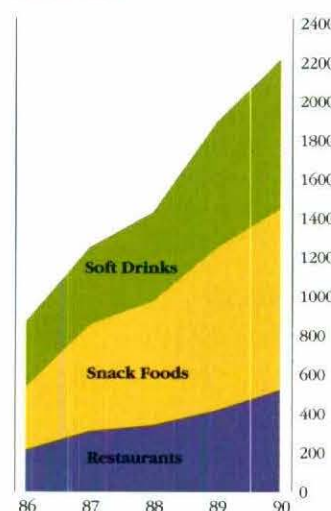
In determining geographic area data, the results of PepsiCo's centralized soft drink concentrate manufacturing facilities in Puerto Rico and Ireland have been allocated based upon actual concentrate sales to the respective geographic areas. Certain centralized international administrative expenses in each of the three industry segments have been allocated based upon sales volumes or number of restaurants in the respective geographic areas.

1990 and 1989 consisted of 52 weeks, while 1988 consisted of 53 weeks.

Net Sales
(\$ In Millions)



Segment Operating Profits
(\$ In Millions)



Industry Segments:		Net Sales			Operating Profits ^(a)			Identifiable Assets ^(b)		
		1990	1989	1988	1990	1989	1988	1990	1989	1988
Soft Drinks: Domestic	International	\$ 5,034.5	\$ 4,623.3	\$ 3,667.0	\$ 673.8	\$ 577.6	\$ 405.7	\$ 6,465.2	\$ 6,198.1	\$ 3,994.1
		1,488.5	1,153.4	971.2	93.8	98.6	49.6			
		6,523.0	5,776.7	4,638.2	767.6	676.2	455.3			
Snack Foods: Domestic	International	3,471.5	3,211.3	2,933.3	732.3	667.8	587.0	3,892.4	3,310.0	1,608.0
		1,582.5	1,003.7	581.0	202.1	137.4	45.2			
		5,054.0	4,215.0	3,514.3	934.4	805.2	632.2			
Restaurants: Domestic	International	5,540.9	4,684.8	3,950.3	447.2	356.5	298.4	3,448.9	3,070.6	3,061.0
		684.8	565.9	430.4	75.2	57.8	41.9			
		6,225.7	5,250.7	4,380.7	522.4	414.3	340.3			
Total:	Domestic	14,046.9	12,519.4	10,550.6	1,853.3	1,601.9	1,291.1	\$ 13,806.5	\$ 12,578.7	\$ 8,663.1
		3,755.8	2,723.0	1,982.6	371.1	293.8	136.7			
		\$ 17,802.7	\$ 15,242.4	\$ 12,533.2	\$ 2,224.4	\$ 1,895.7	\$ 1,427.8			

Geographic Areas:^{(a), (b)}

United States	\$ 14,046.9	\$ 12,519.4	\$ 10,550.6	\$ 1,853.3	\$ 1,601.9	\$ 1,291.1	\$ 9,980.7	\$ 9,593.4	\$ 7,208.9
Europe	1,344.7	771.7	415.5	108.5	53.8	12.6	2,255.2	1,767.2	174.4
Canada and Mexico	1,089.2	899.0	726.3	164.2	117.1	52.5	689.5	409.5	324.4
Other	1,321.9	1,052.3	840.8	98.4	122.9	71.6	881.1	808.6	955.4
Corporate Assets							13,806.5	12,578.7	8,663.1
Total	\$ 17,802.7	\$ 15,242.4	\$ 12,533.2	2,224.4	1,895.7	1,427.8	3,336.9	2,548.0	2,472.2
				\$ 17,143.4	\$ 15,126.7	\$ 11,135.3			

Interest and Other Corporate Expenses, Net^(a)

	(557.0)	(545.2)	(300.6)
--	---------	---------	---------

Income from Continuing Operations Before Income Taxes

\$ 1,667.4	\$ 1,350.5	\$ 1,127.2
------------	------------	------------

	Capital Spending			Depreciation and Amortization Expense		
	1990	1989	1988	1990	1989	1988
Soft Drinks	\$ 334.1	\$ 267.8	\$ 198.4	\$ 338.1	\$ 306.3	\$ 195.7
Snack Foods	381.6	257.9	172.6	232.5	189.3	156.8
Restaurants	460.6	424.6	344.2	306.5	269.9	271.3
Corporate	21.9	9.2	14.9	6.9	6.5	5.5
	\$ 1,198.2	\$ 959.5	\$ 730.1	\$ 884.0	\$ 772.0	\$ 629.3

Results by Restaurant Chain:

	Net Sales			Operating Profits ^(a)		
	1990	1989	1988	1990	1989	1988
Pizza Hut	\$ 2,949.9	\$ 2,453.5	\$ 2,014.2	\$ 245.9	\$ 205.5	\$ 149.7
Taco Bell	1,745.5	1,465.9	1,157.3	149.6	109.4	75.7
KFC	1,530.3	1,331.3	1,209.2	126.9	99.4	114.9
	\$ 6,225.7	\$ 5,250.7	\$ 4,380.7	\$ 522.4	\$ 414.3	\$ 340.3

(a) **Unusual Items:** Results for the years presented were affected by several unusual credits and charges, the impacts of which were a net credit of \$35.2 million (\$4.2 charge after-tax or \$0.01 per share) in 1990, a net credit of \$4.4 million (\$1.8 after-tax) in 1989 and a net charge of \$23.9 million (\$16.3 after-tax or \$0.02 per share) in 1988. The unusual items were as follows:

Soft Drinks: 1990 included \$10.5 million in charges for receivables exposures related to highly leveraged domestic retail customers. 1989 included a \$32.5 million credit resulting from a decision to retain a bottling operation in Japan previously held for sale and a \$12.3 million reorganization charge to decentralize international operations. 1988 included a \$14.5 million reorganization charge to decentralize domestic operations and a \$9.4 million loss resulting from the sale of a Spanish winery.

Snack Foods: 1990 included \$10.6 million in charges for receivables exposures related to highly leveraged domestic retail customers. 1989 included a \$6.6 million reorganization charge to decentralize

domestic operations and a \$4.3 million credit resulting from a decision to retain a domestic cookie production facility previously held for sale.

Restaurants: 1990 included a \$17.0 million domestic and a \$0.6 million international charge for closures of certain underperforming restaurants as follows: \$9.0 million at Pizza Hut, \$4.0 million at Taco Bell and \$4.6 million at KFC. 1990 also included an \$8.0 million charge to consolidate domestic Pizza Hut field operations and a \$2.4 million charge to relocate international Pizza Hut headquarters. 1989 included reorganization charges of \$8.0 million at KFC and \$5.5 million at Taco Bell to consolidate domestic field operations.

Corporate: 1990 included a \$118.2 million gain from an initial public stock offering by PepsiCo's KFC joint venture in Japan, an \$18.0 million charge for accelerated contributions to the PepsiCo Foundation and a \$15.9 million charge to reduce the carrying value of a Pizza Hut international joint venture investment.

(b) The identifiable assets at year-end 1988 were not restated for certain previously consolidated KFC international joint ventures reported under the equity method since 1989.

Consolidated Statement of Income

(in millions except per share amounts)

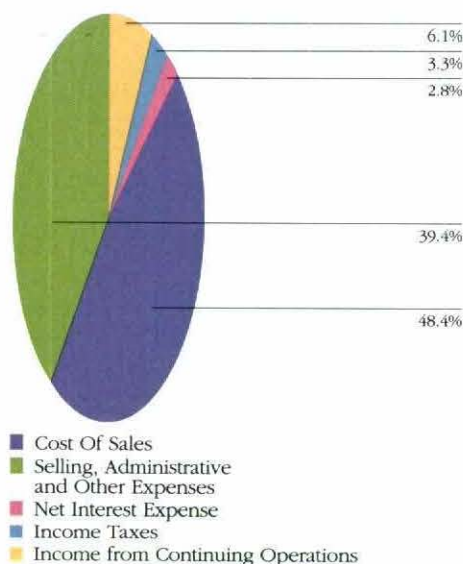
PepsiCo, Inc. and Subsidiaries

Fifty-two weeks ended December 29, 1990 and December 30, 1989 and fifty-three weeks ended December 31, 1988

	1990	1989	1988
Net Sales	\$17,802.7	\$15,242.4	\$12,533.2
Costs and Expenses			
Cost of sales	8,609.9	7,467.7	5,957.4
Selling, administrative and other expenses	6,948.1	5,841.4	5,154.3
Amortization of goodwill and other intangibles	189.1	150.4	72.3
Gain on joint venture stock offering	(118.2)	—	—
Interest expense	688.5	609.6	344.2
Interest income	(182.1)	(177.2)	(122.2)
	<u>16,135.3</u>	<u>13,891.9</u>	<u>11,406.0</u>
Income from Continuing Operations Before Income Taxes	1,667.4	1,350.5	1,127.2
Provision for Income Taxes	576.8	449.1	365.0
Income from Continuing Operations	1,090.6	901.4	762.2
Discontinued Operation Charge (net of income tax benefit of \$0.3)	(13.7)	—	—
Net Income	\$ 1,076.9	\$ 901.4	\$ 762.2
Income (Charge) Per Share			
Continuing operations	\$ 1.37	\$ 1.13	\$ 0.97
Discontinued operation	(0.02)	—	—
Net Income Per Share	\$ 1.35	\$ 1.13	\$ 0.97
Average shares outstanding used to calculate income (charge) per share	798.7	796.0	790.4

See accompanying Notes to Consolidated Financial Statements.

**Allocation Of
1990 Net Sales**



Management's Analysis—Results of Operations

PepsiCo's three industry segments operate in highly competitive domestic and international markets that are impacted by local economic factors including inflation, changing commodity prices and wage legislation, as well as worldwide recessionary cycles. PepsiCo has mitigated these influences by enhancing the appeal and value of its products through brand promotion, improved quality and prudent pricing actions and by containing costs through increased manufacturing and distribution efficiencies. The extent to which these and other strategies continue to be successful will substantially affect future growth rates of the businesses.

Results for the periods presented reflected acquisitions of several franchised soft drink bottling operations, the largest of which was the domestic bottling business of General Cinema Corporation acquired in March 1989, as well as the July 1989 acquisition of the Smiths and Walkers snack chip businesses in the United Kingdom (the U.K. operations). Results also reflected the 1989 reconsolidation of a bottling operation in Japan previously held for sale and the sale of certain domestic bottling operations in late 1988. Accordingly, the discussions below are supplemented, where significant, with comparisons excluding the estimated first year impact of the above operations (collectively "the Acquisitions"). Comparisons excluding the first year impact of the Acquisitions are determined by excluding from reported current year amounts the results of the Acquisitions for the corresponding periods that such operations were not reflected in reported prior year amounts. Comparisons of 1989 and 1988 results were also affected by one more week in the 1988 reporting period.

Net Sales, Costs and Expenses

Net sales rose 17% in 1990 and 22% in 1989. Excluding the first year impact of the Acquisitions, net sales increased 14% in both 1990 and 1989. The growth in both years was driven by volume gains in all three industry segments as well as additional restaurant units. International net sales represented 21%, 18% and 16% of consolidated net sales in 1990, 1989 and 1988, respectively, primarily reflecting the U.K. operations and strong growth in existing businesses. The trend of an increasing international component of net sales and operating profits is expected to continue. Management's Analysis of the results of each industry segment is presented in the text beginning on pages 13, 21 and 29.

Cost of sales as a percentage of net sales was 48.4%, 49.0% and 47.5% in 1990, 1989 and 1988, respectively. The 1990 decrease principally reflected higher pricing and lower ingredients costs in domestic soft drinks and snack foods. The 1989 increase principally reflected lower menu prices at Taco Bell and the acquisitions of businesses with lower gross margins.

Selling, administrative and other expenses rose 19% in 1990 and 13% in 1989. Unusual charges in 1990 (see Note to Consolidated Financial Statements on page 35) added one and one-half points to the 1990 growth rate of these expenses. The 1990 and 1989 growth reflected higher sales volumes, increased promotional expenses, additional restaurant units and the additional operating expenses of the Acquisitions.

The increase in amortization of goodwill and other intangibles principally reflects the significant 1989 acquisitions. A portion of the amortization expense is deductible for U.S. income tax purposes, and the after-tax expense amounts per share were \$0.20, \$0.16 and \$0.08 in 1990, 1989 and 1988, respectively.

The joint venture stock offering gain of \$118.2 million (\$53.0 after-tax or \$0.07 per share) relates to the August 1990 initial public offering (IPO) to Japanese investors of shares of PepsiCo's Kentucky Fried Chicken joint venture in Japan (KFC-J). (See Note to Consolidated Financial Statements on page 44.)

Interest expense rose 13% in 1990 compared to 77% in 1989. The increases reflected higher average domestic borrowings to finance the Acquisitions, and a decline in average interest rates in 1990 compared to an increase in 1989. Interest income rose 3% in 1990 compared to 45% in 1989, reflecting higher average balances of offshore short-term investment portfolios in both years and the change in interest rate trends.

Income from Continuing Operations Before Income Taxes

Income from continuing operations before income taxes rose 23% in 1990 compared to 20% in 1989. Excluding the first year impact of the Acquisitions (with related financing costs), the increases were 28% and 35% in 1990 and 1989, respectively. The growth in both years reflected double-digit operating profit advances in all three industry segments driven by volume gains as well as additional restaurants units. International operating profits represented 17%, 15% and 10% of combined segment operating profits in 1990, 1989 and 1988, respectively, with the increases primarily reflecting strong volume growth and the U.K. operations.

Provision for Income Taxes

The effective tax rates on income from continuing operations were 34.6%, 33.3% and 32.4% in 1990, 1989 and 1988, respectively. The effective tax rate for 1990 would have been 33.0% excluding the KFC-J IPO gain, which had an effective tax rate of 55.2%. This rate reflected the lower U.S. tax basis of PepsiCo's investment in KFC-J compared to its book value, which includes nondeductible goodwill. The 1989 increase was primarily due to the growth in nondeductible amortization of goodwill and other intangibles. PepsiCo expects that its effective tax rate will increase in 1991 due to a number of factors including a disproportionate increase in earnings in high tax jurisdictions, as well as the absence of certain foreign tax loss carryforwards.

As the Financial Accounting Standards Board (the FASB) continues to review and evaluate possible amendments to recently issued rules for accounting for income taxes, including a further extension of the adoption date, PepsiCo is unable to predict the final FASB requirements and therefore cannot reasonably estimate the effects of adoption.

Income Per Share from Continuing Operations

Income per share from continuing operations rose 21% to \$1.37 in 1990 compared to a 17% increase in 1989 to \$1.13. First year dilution per share related to the Acquisitions was an estimated \$0.04 in 1990 and \$0.15 in 1989. Reported dilution represents the after-tax results of acquisitions, including amortization of goodwill and other intangibles and estimated financing costs, through the first year subsequent to the acquisition dates.

The 1990 and 1989 growth rates in income per share from continuing operations were not significantly affected by the net impact of the KFC-J IPO gain, other unusual items in all three years and one more week in the 1988 reporting period.

Consolidated Balance Sheet

(in millions except per share amount)

PepsiCo, Inc. and Subsidiaries

December 29, 1990 and December 30, 1989

	1990	1989
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 170.8	\$ 76.2
Short-term investments, at cost which approximates market	<u>1,644.9</u>	<u>1,457.7</u>
	1,815.7	1,533.9
Notes and accounts receivable, less allowance: \$90.8 in 1990 and \$57.7 in 1989	1,414.7	1,239.7
Inventories	585.8	546.1
Prepaid expenses and other current assets	<u>265.2</u>	<u>231.1</u>
Total Current Assets	<u>4,081.4</u>	<u>3,550.8</u>
Investments in Affiliates and Other Assets	1,505.9	970.8
Property, Plant and Equipment, net	5,710.9	5,130.2
Goodwill and Other Intangibles, net	<u>5,845.2</u>	<u>5,474.9</u>
Total Assets	<u>\$17,143.4</u>	<u>\$15,126.7</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	\$ 1,626.5	\$ 866.3
Accounts payable	1,116.3	1,054.5
Income taxes payable	443.7	313.7
Other current liabilities	<u>1,584.0</u>	<u>1,457.3</u>
Total Current Liabilities	<u>4,770.5</u>	<u>3,691.8</u>
Long-term Debt	5,600.1	5,777.1
Nonrecourse Obligation	299.5	299.4
Other Liabilities and Deferred Credits	626.3	610.4
Deferred Income Taxes	942.8	856.9
Shareholders' Equity		
Capital stock, par value 1 $\frac{2}{3}$ ¢ per share: authorized 1,800.0 shares, issued 863.1 shares	14.4	14.4
Capital in excess of par value	365.0	323.9
Retained earnings	4,753.0	3,978.4
Currency translation adjustment	<u>383.2</u>	<u>66.2</u>
	5,515.6	4,382.9
Less: Treasury stock, at cost: 74.7 shares in 1990, 72.0 shares in 1989	<u>(611.4)</u>	<u>(491.8)</u>
Total Shareholders' Equity	<u>4,904.2</u>	<u>3,891.1</u>
Total Liabilities and Shareholders' Equity	<u>\$17,143.4</u>	<u>\$15,126.7</u>

See accompanying Notes to Consolidated Financial Statements.

Management's Analysis—Financial Condition

PepsiCo's principal objective is to increase the value of its shareholders' investment through integrated operating, investing and financing strategies that maximize cash returns on investments and optimize the cost of capital. The cost of capital is a weighting of cost of debt and cost of equity, with the latter representing a measure of expected return to investors in PepsiCo's stock. PepsiCo estimates its current cost of capital to be approximately 11%. PepsiCo's strong financial condition provides continued access to capital markets throughout the world.

Assets

Total assets increased \$2.0 billion or 13% over 1989. This increase reflected purchases of property, plant and equipment (PP&E), equity investments in international snack foods operations, acquisitions of franchisees in soft drinks and restaurants and normal growth of the businesses.

Substantially all of PepsiCo's short-term investments consist of high-grade marketable securities portfolios held offshore. The majority of the investments represent portfolios in Puerto Rico, reflecting the strong operating cash flows of centralized soft drink manufacturing facilities that operate there under a tax incentive. These funds may be remitted to the United States for a nominal local tax under the conditions provided by a tax incentive grant that expires in 2006. (See Note to Consolidated Financial Statements on page 46.) PepsiCo continually reassesses its alternatives to redeploy these and other offshore portfolios, considering other investment opportunities, tax consequences and overall financing strategies.

Investments in affiliates and other assets increased \$535 million in 1990. This growth included a \$327 million equity investment in a cookie business in Mexico and a \$78 million net change in other joint venture activity.

PepsiCo's purchases of PP&E totaled \$1.2 billion and \$960 million in 1990 and 1989, respectively, led in both years by the restaurants segment. Spending increases in 1990 reflected manufacturing capacity and productivity enhancement projects in international snack foods, investments in high growth markets of international soft drinks and new unit development at Taco Bell and Pizza Hut.

Goodwill and other intangibles increased \$370 million in 1990, principally reflecting the translation impact of a weaker U.S. dollar on the goodwill and other intangibles arising from the 1989 acquisition of the U.K. operations, as well as the value of franchise rights reacquired in the acquisitions of franchisees.

Liabilities

Total liabilities rose \$1.0 billion or 9% over 1989, reflecting \$583 million of increased debt to partially fund PP&E purchases, acquisitions and other investments. The increase also reflected normal growth and liabilities of acquired operations.

PepsiCo's available credit facilities with lending institutions, which exist largely to support the issuances of short-term borrowings, were \$3.5 billion at year-end 1990.

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106 (SFAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires the recognition of postretirement benefit expenses on an accrual basis. PepsiCo has not yet determined the impact of adoption of SFAS 106. PepsiCo expects to implement SFAS 106 by its required adoption date in 1993.

Financial Leverage

In managing its capital structure, PepsiCo utilizes financial leverage to optimize the overall cost of capital, considering the favorable tax treatment of debt, while maintaining operating and financial flexibility.

PepsiCo measures leverage on a net basis, which takes into account its large offshore short-term investment portfolios. These portfolios are managed as part of PepsiCo's overall financing strategy and are not required to support day-to-day operations. Therefore, PepsiCo believes its net debt position, which reflects the pro forma remittance of the portfolios, net of related taxes, as a reduction of total debt (excluding the nonrecourse obligation) is the most meaningful historical cost measure of financial leverage used in the business. PepsiCo's ratio of net debt to net capital employed (defined as net debt, other liabilities and deferred credits, deferred income taxes and shareholders' equity) was 47%, 51% and 37% at year-end 1990, 1989 and 1988, respectively. The decline in the 1990 ratio reflected net capital growth that exceeded the growth in net debt. The increase in 1989 over 1988 reflects the additional debt required to finance the 1989 acquisitions.

PepsiCo also measures financial leverage on a market value basis. Management believes that market leverage (defined as net debt as a percent of net debt plus the market value of equity, based on the stock price at the end of the reporting period) better measures PepsiCo's financial leverage from the perspective of investors in its securities, as it reflects how much of the current value of PepsiCo is financed with debt. Unlike historical cost measures, the market value of equity is based primarily on the expected future cash flows that will both support debt and provide returns to shareholders. The market net debt ratio was 22%, 24% and 20% at year-end 1990, 1989 and 1988, respectively. PepsiCo has established a target range for its market net debt ratio of 20-25%. PepsiCo believes that it can safely exceed this range on a short-term basis to take advantage of strategic acquisition opportunities.

Because of its strong cash generating capability, PepsiCo believes that its current leverage level does not significantly affect its overall cost of debt or reduce its flexibility to invest in the business.

PepsiCo's negative operating working capital position, which principally reflects the cash sales nature of its restaurant operations, is an interest-free source of capital. Operating working capital, which excludes short-term investments and short-term borrowings, was a negative \$708 million and \$732 million at year-end 1990 and 1989, respectively.

Shareholders' Equity

The currency translation adjustment increased to \$383 million at year-end 1990 compared to \$66 million at year-end 1989. The change was almost entirely due to the impact of the weaker U.S. dollar on the translation of financial statements of the U.K. operations.

Return on average shareholders' equity primarily represents a combination of operating performance and the effect of financial leverage. Based on income from continuing operations, PepsiCo's return on average shareholders' equity was 24.8% in 1990 compared to 25.6% in 1989. The decrease reflected growth in average shareholders' equity that exceeded the growth in income, primarily because of the change in the currency translation adjustment.

Consolidated Statement of Cash Flows

PepsiCo, Inc. and Subsidiaries

Fifty-two weeks ended December 29, 1990 and December 30, 1989 and fifty-three weeks ended December 31, 1988

(in millions)

	1990	1989	1988
Cash Flows from Continuing Operations:			
Income from continuing operations	\$ 1,090.6	\$ 901.4	\$ 762.2
Adjustments to reconcile income from continuing operations to net cash generated by continuing operations:			
Gain on joint venture stock offering	(118.2)	—	—
Depreciation and amortization	884.0	772.0	629.3
Deferred income taxes	106.1	71.2	20.1
Other noncash charges and credits—net	120.3	128.4	213.4
Changes in operating working capital, excluding effect of acquisitions and sales of businesses:			
Notes and accounts receivable	(124.8)	(149.9)	(50.1)
Inventories	(20.9)	(50.1)	13.8
Prepaid expenses and other current assets	(61.6)	6.5	37.8
Accounts payable	25.4	134.9	138.2
Income taxes payable	136.3	80.9	55.1
Other current liabilities	72.8	(9.4)	74.7
Net change in operating working capital	27.2	12.9	269.5
Net Cash Generated by Continuing Operations	2,110.0	1,885.9	1,894.5
Cash Flows from Investing Activities:			
Acquisitions and investments in affiliates	(630.6)	(3,296.6)	(1,415.5)
Purchases of property, plant and equipment	(1,180.1)	(943.8)	(725.8)
Proceeds from joint venture stock offering	129.6	—	—
Proceeds from sales of property, plant and equipment	45.3	69.7	67.4
Proceeds from sales of businesses	—	—	283.2
Net sales (purchases) of short-term investments	(181.8)	12.3	(201.7)
Other, net	(119.7)	(97.9)	(58.7)
Net Cash Used for Investing Activities	(1,937.3)	(4,256.3)	(2,051.1)
Cash Flows from Financing Activities:			
Proceeds from issuances of long-term debt	777.3	71.7	475.3
Payments of long-term debt	(298.0)	(405.4)	(190.0)
Net proceeds from (payments of) short-term borrowings	(86.2)	2,925.5	231.3
Cash dividends paid	(293.9)	(241.9)	(199.0)
Purchases of treasury stock	(147.7)	—	(71.8)
Other, net	(28.6)	(28.9)	(24.4)
Net Cash Generated by (Used for) Financing Activities	(77.1)	2,321.0	221.4
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1.0)	(17.1)	(1.4)
Net Increase (Decrease) in Cash and Cash Equivalents	94.6	(66.5)	63.4
Cash and Cash Equivalents—Beginning of Year	76.2	142.7	79.3
Cash and Cash Equivalents—End of Year	\$ 170.8	\$ 76.2	\$ 142.7
Supplemental Cash Flow Information:			
Cash Flow Data			
Interest paid	\$ 656.9	\$ 591.1	\$ 286.5
Income taxes paid	\$ 375.0	\$ 239.7	\$ 234.7
Schedule of Noncash Investing and Financing Activities			
Issuance of treasury stock and debt for acquisitions	\$ 105.1	\$ 103.9	\$ 328.2
Liabilities assumed/disposed of in connection with acquisitions/sales of businesses	\$ 231.8	\$ 446.8	\$ 300.0
Issuance of treasury stock for compensation awards and conversion of debentures	\$ 13.5	\$ 9.3	\$ 26.4
Additions of capital leases	\$ 18.1	\$ 15.7	\$ 4.3

See accompanying Notes to Consolidated Financial Statements.

Management's Analysis—Cash Flows

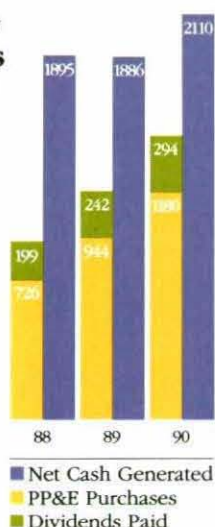
Cash flow activity in 1990 reflected strong cash flows from continuing operations of \$2.1 billion and net proceeds from issuances of debt of \$393 million. Major funding needs included purchases of property, plant and equipment (PP&E) of \$1.2 billion, acquisitions and investments in affiliates of \$631 million and dividends of \$294 million.

Net Cash Generated by Continuing Operations

One of PepsiCo's most significant financial strengths is its internal cash generation capability. In fact, in 1990 each industry segment generated cash from operations sufficient to fund its PP&E purchases, acquisitions and affiliate investments, with cash flows from domestic businesses funding international uses of cash. As the chart below illustrates, in each of the past three years, net cash generated by continuing operations has been well in excess of amounts required to fund purchases of PP&E and dividend payments. This excess cash flow has been decreasing over the last three years due principally to major PP&E investment programs that will continue into 1991. Excess cash flow is expected to decline in 1991 but resume growth in the following years.

Net Cash Generated by Continuing Operations vs. Purchases of PP&E and Dividends Paid

(\$ In Millions)



Net cash generated by continuing operations in 1990 increased \$224 million or 12% over 1989, while 1989 was about even with 1988. The joint venture stock offering gain relates to the initial public offering of a KFC joint venture in Japan. (See Note to Consolidated Financial Statements on page 44.) The comparisons of 1990 to 1989 changes in the individual components of operating working capital are affected by numerous increases and decreases in various accounts, none of which had a significant impact on cash generated by continuing operations. The 1989 decrease in cash flows provided by operating working capital principally reflected additional investment required to support sales growth in the comparatively more working capital intensive bottling and snack foods businesses acquired. The increase of \$112 million and \$143 million in depreciation and amortization noncash charges in 1990 and 1989, respectively, reflected growth in PP&E as well as the amortization of goodwill and other intangibles and depreciation expense associated with acquisitions.

Investing Activities

PepsiCo's investing activities over the past three years reflected strategic spending in all three industry segments through acquisitions, investments in affiliates and purchases of PP&E. Acquisitions and investments in affiliates for cash totaled \$631 million in 1990 and included an equity investment in a cookie business in Mexico, several domestic and Canadian franchised soft drink bottlers and several franchised restaurant operators. PepsiCo continues to seek opportunities to strengthen its position in its domestic and international industry segments through strategic acquisitions. Purchases of PP&E are expected to increase from \$1.2 billion in 1990 to approximately \$1.5 billion in 1991. About 40% of that amount is targeted for the restaurants segment, with the balance evenly divided between the soft drinks and snack foods segments. The planned PP&E spending reflects restaurant unit expansion, and increased capacity for worldwide soft drinks bottling and snack foods manufacturing operations. The net purchases of short-term investments in 1990 reflected growth in the Puerto Rico and other offshore portfolios due to cash flows generated by worldwide soft drink concentrate and international snack foods operations. The net sales of short-term investments in 1989 reflected the \$331 million liquidation of certain offshore portfolios to finance a portion of the purchase price of the U.K. operations.

Financing Activities

Financing activities decreased \$2.4 billion from 1989 reflecting lower acquisition-related borrowing in 1990. The 1989 acquisitions were initially funded primarily through short-term borrowings. Long-term refinancing of these borrowings has been integrated into PepsiCo's overall financing strategies and activities.

In September 1990 PepsiCo filed a shelf registration statement with the Securities and Exchange Commission covering potential debt issuances of \$1.5 billion. Debt issuances under this shelf registration, all occurring after year-end, totaled \$1.0 billion through February 1991, with terms of one to three years. PepsiCo intends to file a shelf registration in the near future covering potential debt issuances of \$2.5 billion. Debt issuances under these shelf registrations are intended principally to refinance existing short-term borrowings.

Cash dividends declared were a record \$302 million in 1990 and \$253 million in 1989. PepsiCo targets a dividend payout of approximately one-third of the prior year's earnings, thus retaining sufficient earnings to enhance productive capability and provide financial resources for growth opportunities.

Share repurchase decisions are evaluated considering the target capital structure and other investment opportunities. In 1990, PepsiCo repurchased 6,310,100 shares at a cost of \$148 million. The number of shares repurchased approximates shares issued in conjunction with 1990 acquisitions as well as shares expected to be issued in conjunction with the probable acquisition of the franchised domestic KFC operations of Collins Foods International, Inc. in 1991. Including these repurchases, 14.4 million shares have been purchased under the 45 million share repurchase authority granted by PepsiCo's Board of Directors in 1987.

Consolidated Statement of Shareholders' Equity

(shares in thousands, dollars in millions, except per share amounts)

PepsiCo, Inc. and Subsidiaries

Fifty-two weeks ended December 29, 1990 and December 30, 1989 and fifty-three weeks ended December 31, 1988

	Capital Stock				Capital in Excess of Par Value	Retained Earnings	Currency Translation Adjustment	Total
	Issued		Treasury					
	Shares	Amount	Shares	Amount				
Shareholders' Equity, December 26, 1987	863,083	\$14.4	(81,844)	\$(553.6)	\$280.9	\$2,776.7	\$ (9.8)	\$2,508.6
1988 Net income						762.2		762.2
Cash dividends declared (per share-\$0.27)						(209.2)		(209.2)
Shares reissued to Employee Stock Ownership Plan			365	2.5	1.6			4.1
Payment of compensation awards and exercise of stock options			972	6.6	0.5			7.1
Conversion of debentures			3,047	20.7	(2.6)			18.1
Translation adjustments							33.8	33.8
Purchase of treasury stock			(6,198)	(71.8)				(71.8)
Shares issued in connection with acquisitions			9,009	85.9	22.2			108.1
Shareholders' Equity, December 31, 1988	863,083	\$14.4	(74,649)	\$(509.7)	\$302.6	\$3,329.7	\$ 24.0	\$3,161.0
1989 Net income						901.4		901.4
Cash dividends declared (per share-\$0.32)						(252.7)		(252.7)
Payment of compensation awards and exercise of stock options			901	6.2	2.6			8.8
Conversion of debentures			456	3.1	0.8			3.9
Translation adjustments							42.2	42.2
Shares issued in connection with an acquisition			1,266	8.6	17.9			26.5
Shareholders' Equity, December 30, 1989	863,083	\$14.4	(72,026)	\$(491.8)	\$323.9	\$3,978.4	\$ 66.2	\$3,891.1
1990 Net income						1,076.9		1,076.9
Cash dividends declared (per share-\$0.38)						(302.3)		(302.3)
Shares reissued to Employee Stock Ownership Plan			8	0.1	0.2			0.3
Payment of compensation awards and exercise of stock options			1,072	7.8	9.1			16.9
Conversion of debentures			549	3.9	1.7			5.6
Translation adjustments							317.0	317.0
Purchase of treasury stock			(6,310)	(147.7)				(147.7)
Shares issued in connection with acquisitions			2,013	16.3	30.1			46.4
Shareholders' Equity, December 29, 1990	863,083	\$14.4	(74,694)	\$(611.4)	\$365.0	\$4,753.0	\$383.2	\$4,904.2

Certain amounts above have been restated to reflect the 1990 three-for-one stock split.

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(tabular dollars in millions except per share amounts)

Summary of Significant Accounting Policies

Principles of Consolidation. The financial statements reflect the consolidated accounts of PepsiCo, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in affiliates in which PepsiCo exercises significant influence but not control are accounted for by the equity method, and the equity in net income is included in the Consolidated Statement of Income under the caption "Selling, administrative and other expenses." Certain reclassifications were made to 1989 and 1988 amounts to conform with the 1990 presentation.

Stock Split. On July 26, 1990, PepsiCo's Board of Directors authorized a three-for-one stock split of PepsiCo's Capital Stock effective for shareholders of record at the close of business on August 10, 1990. The number of authorized shares was also increased from 600 million to 1.8 billion. The Consolidated Financial Statements for 1990, as well as all other share data in this report, reflect this stock split and the increase in authorized shares. Prior year amounts also have been restated for the stock split. The par value remained 1 $\frac{2}{3}$ cents per share, with capital in excess of par value reduced by the total par value of the additional shares.

Goodwill and Other Intangibles. Goodwill and other intangibles arose from the allocation of purchase prices of businesses acquired, with the largest portion representing the value of Pepsi-Cola franchise rights reacquired in the acquisitions of franchised domestic soft drink bottling operations. Goodwill and other intangibles are amortized on a straight-line basis over appropriate periods generally ranging from 20 to 40 years. Accumulated amortization was \$548 million and \$359 million at year-end 1990 and 1989, respectively.

Marketing Costs. Marketing costs are included in the Consolidated Statement of Income under the caption "Selling, administrative and other expenses." Costs of materials in inventory and prepayments are deferred, and certain promotional discounts are expensed as incurred. All other costs of advertising and other marketing and promotional programs are charged to expense ratably over the year in which incurred, generally in relation to sales.

Classification of Restaurant Operating Expenses. Operating expenses incurred at the restaurant unit level consist primarily of food and related packaging costs, labor associated with food preparation and customer service, and overhead expenses. For purposes of the Consolidated Statement of Income, food and packaging costs as well as all labor-related expenses are classified as "Cost of sales," and all other unit level expenses are classified as "Selling, administrative and other expenses."

Cash Equivalents. Cash equivalents are comprised of funds temporarily invested (with original maturities not exceeding three months) as part of PepsiCo's management of day-to-day operating cash receipts and disbursements. All other investment portfolios, primarily held offshore, are classified as short-term investments.

Net Income Per Share. Net income per share is computed by dividing net income by the weighted average number of shares and share equivalents outstanding during each year.

Research and Development Expenses. Research and development expenses, which are expensed as incurred, were \$101 million, \$91 million and \$84 million in 1990, 1989 and 1988, respectively.

Acquisitions and Investments in Affiliates

During 1990 PepsiCo completed several acquisitions and affiliate investments in all three industry segments aggregating \$736 million, comprised of \$631 million in cash, \$59 million in notes and \$46 million in PepsiCo Capital Stock. The activity included acquisitions of a 54% equity interest in a Mexican cookie business, franchised soft drink bottlers in Canada and franchised domestic restaurant operators.

During 1989 PepsiCo completed a number of acquisitions with purchase prices aggregating \$3.4 billion, principally for cash. The acquisitions included the franchised domestic soft drink bottling operations of General Cinema Corporation (GC Beverage), acquired on March 23, 1989 for \$1.77 billion, and Smiths Crisps Limited and Walkers Crisps Holdings Limited (the U.K. operations), two snack chips companies in the United Kingdom, acquired on July 1, 1989 for \$1.34 billion. The remaining activity consisted primarily of acquisitions of franchised domestic soft drink bottlers and restaurant operators.

Acquisition and affiliate investment activity in 1988 aggregated \$1.8 billion, principally comprised of over \$1.4 billion in cash, \$220 million in notes and \$108 million in PepsiCo Capital Stock. The majority of these acquisitions were franchised domestic soft drink bottlers, the largest of which were the bottling operations of Grand Metropolitan Incorporated acquired on August 4, 1988 for \$705 million in cash. On December 31, 1987 PepsiCo also acquired a 20% equity interest in Pepsi-Cola General Bottlers, Inc. (the remaining equity of which is owned by Whitman Corporation), contributing \$177 million in cash and certain previously consolidated bottling operations with an aggregate carrying value of \$17 million.

The acquisitions have been accounted for by the purchase method; accordingly, their results are included in the Consolidated Financial Statements from their respective dates of acquisition.

The following table presents the unaudited pro forma combined results of PepsiCo and the 1989 acquisitions of GC Beverage and the U.K. operations as if they had occurred at the beginning of 1989 and 1988, and a substantial majority of the 1988 acquisitions as if they had occurred at the beginning of 1988. The aggregate impact of acquisitions in 1990 and all other acquisitions for 1989 and 1988 was not material to PepsiCo's net sales, income or income per share; accordingly, no related pro forma information is provided. The pro forma information does not necessarily represent what the actual consolidated results would have been for these periods and is not intended to be indicative of future results.

	1989	1988
Net sales	\$15,620.2	\$13,930.9
Net income	\$ 859.3	\$ 649.3
Per share	\$ 1.08	\$ 0.82

Business Segments

Information regarding industry segments and geographic areas of operations is provided on pages 34 and 35.

Joint Venture Stock Offering

PepsiCo's Kentucky Fried Chicken joint venture in Japan (KFC-J) completed an initial public offering (IPO) to Japanese investors on August 21, 1990. KFC-J is a joint venture whose principal shareholders are Mitsubishi Corporation and PepsiCo. The IPO consisted of 6.5 million shares of stock in KFC-J. Each principal shareholder sold 2.25 million shares and an additional two million new shares were sold by KFC-J. As a result of these transactions, each principal shareholder's interest declined from 48.7% to 30.5%.

PepsiCo's sale of 2.25 million shares generated pretax cash proceeds of \$129.6 million. The resulting one-time gain from the IPO of \$118.2 million (\$53.0 after-tax or \$0.07 per share) is comprised of a \$94.3 million gain (\$42.3 after-tax) from PepsiCo's sale of the 2.25 million shares and a \$23.9 million (\$10.7 after-tax) noncash equity gain from the sale of the two million new shares by KFC-J.

Discontinued Operation Charge

The discontinued operation charge of \$14.0 million (\$13.7 after-tax or \$0.02 per share) represents additional amounts provided in 1990 for various pending lawsuits and claims relating to a business sold in a prior year. Substantially all of the charge is a capital loss for which PepsiCo derives no current tax benefit.

Inventories

Inventories are valued at the lower of cost (computed on the average, first-in, first-out or last-in, first-out methods) or net realizable value. Inventories computed on the last-in, first-out (LIFO) method comprised 54% and 56% of inventories at year-end 1990 and 1989, respectively.

	1990	1989
Raw materials, supplies and in-process . . .	\$315.4	\$295.1
Finished goods	285.3	266.5
Total (approximates current cost)	600.7	561.6
Excess of current cost over LIFO cost	(14.9)	(15.5)
	<u>\$585.8</u>	<u>\$546.1</u>

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over the estimated useful lives of the assets. Depreciation and amortization expense in 1990, 1989 and 1988 was \$686 million, \$610 million and \$547 million, respectively.

	1990	1989
Land	\$ 785.4	\$ 702.0
Buildings and improvements	3,173.7	2,815.6
Capital leases, primarily buildings	265.4	241.9
Machinery and equipment	4,753.2	4,058.9
	8,977.7	7,818.4
Accumulated depreciation and amortization	(3,266.8)	(2,688.2)
	<u>\$5,710.9</u>	<u>\$5,130.2</u>

Leases

PepsiCo has noncancelable commitments under both capital and operating leases, primarily for restaurant units. Certain of these units have been subleased to restaurant franchisees. Lease commitments on capital and operating leases expire at various dates through 2032.

Future minimum lease commitments and sublease receivables under noncancelable leases are as follows:

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
1991	\$ 39.2	\$ 179.2	\$11.5	\$ 8.2
1992	35.1	160.9	10.9	7.8
1993	32.3	144.3	9.2	7.4
1994	30.6	130.4	9.0	6.9
1995	28.2	122.1	6.7	6.2
Later years	175.3	582.8	22.1	29.1
	<u>\$340.7</u>	<u>\$1,319.7</u>	<u>\$69.4</u>	<u>\$65.6</u>

At year-end 1990 the present value of minimum lease payments for capital leases was \$194 million, after deducting \$1 million for estimated executory costs (taxes, maintenance and insurance) and \$146 million representing imputed interest. The present value of minimum receivables under direct financing subleases was \$46 million after deducting \$23 million of unearned interest income.

Rental expense and income were as follows:

	Rental	
	Expense	Income
1990	\$272.7	\$10.5
1989	236.9	14.2
1988	219.7	13.2

Included in the above amounts were contingent rental expense of \$21.4 million, \$20.8 million and \$16.8 million and contingent rental income of \$4.9 million, \$4.5 million and \$4.6 million in 1990, 1989 and 1988, respectively. Contingent rentals are based on sales by restaurants in excess of levels stipulated in the lease agreements.

Short-term Borrowings and Long-term Debt		
	1990	1989
Short-term Borrowings		
Commercial paper (7.9% and 8.7% weighted average interest rate at year-end 1990 and 1989, respectively)	\$3,168.8	\$3,081.8
Current maturities of long-term debt issuances	1,085.0	316.8
Notes	624.8	594.8
Other borrowings	247.9	422.9
Amount reclassified to long-term debt (A)	(3,500.0)	(3,550.0)
	<u>\$1,626.5</u>	<u>\$ 866.3</u>
Long-term Debt		
Short-term borrowings, reclassified (A)	\$3,500.0	\$3,550.0
Notes due 1991 through 1998 (7.9% weighted average interest rate at year-end 1990 and 1989) (B)	1,513.7	871.1
Zero coupon notes, \$1.1 billion due 1991-2012 (14.0% semi-annual weighted average yield to maturity at year-end 1990 and 1989)	348.1	308.7
Swiss franc perpetual Foreign Interest Payment bonds (C)	209.9	209.1
European Currency Units 7½% and 7¾% notes due 1990 and 1992 (D)	135.2	239.3
Pound sterling 9¾% notes due 1993 (D)	115.5	96.8
Swiss franc 5¼% bearer bonds due 1995 (D)	104.7	86.9
Australian dollar notes due 1990 (13.3% weighted average interest rate at year-end 1989)	—	81.5
Italian lire 10½% notes due 1991 (D)	88.8	79.0
Canadian dollar 8¾% notes due 1991 (B)	64.6	64.6
Capital lease obligations (See Note on page 44.)	193.8	179.3
Other, due 1991-2020 (8.9% and 9.0% weighted average interest rate at year-end 1990 and 1989, respectively)	410.8	327.6
	<u>6,685.1</u>	<u>6,093.9</u>
Less current maturities of long-term debt issuances	(1,085.0)	(316.8)
Total long-term debt	<u>\$5,600.1</u>	<u>\$5,777.1</u>

Long-term debt is carried net of any related discount or premium and unamortized debt issuance costs. The debt agreements include various restrictions, none of which is presently significant to PepsiCo.

The annual maturities of long-term debt through 1995, excluding capital lease obligations and the reclassified short-term borrowings, are: 1991-\$1.1 billion; 1992-\$531 million; 1993-\$474 million; 1994-\$120 million and 1995-\$134 million.

(A) At year-end 1990 \$3.5 billion of short-term borrowings were classified as long-term, reflecting PepsiCo's intent and ability to refinance these borrowings on a long-term basis, through either long-term debt issuances or rollover of existing short-term borrowings. At year-end 1990 and 1989, PepsiCo had revolving credit agreements aggregating \$3.5 billion and \$3.6 billion, respectively, with the current agreements covering potential borrowings through 1994 and 1995. These available credit facilities provide the ability to refinance short-term borrowings.

(B) PepsiCo has entered into interest rate swap agreements to effectively convert \$679 million of fixed interest rate debt issuances to variable rate debt with a weighted average interest rate of 7.8% at year-end 1990. The differential to be paid or received on interest rate swaps is accrued as interest rates change and is charged or credited to interest expense over the life of the agreements. Due to the frequency of interest payments and receipts, PepsiCo's credit risk related to interest rate swaps is not significant.

(C) The coupon rate of the Swiss franc 400 million perpetual Foreign Interest Payment bonds issued in 1986 is 7½% through 1996. The interest payments are made in U.S. dollars at a fixed contractual exchange rate. The bonds have no stated maturity date. At the end of each 10-year period after the issuance of the bonds, PepsiCo and the bondholders each have the right to cause redemption of the bonds. If not redeemed, the coupon rate will be adjusted based on the prevailing yield of 10-year U.S. Treasury Securities. The principal of the bonds is denominated in Swiss francs. PepsiCo can and intends to limit the ultimate redemption amount to the U.S. dollar proceeds at issuance, which is the basis of the carrying value in both years.

(D) PepsiCo has entered into currency exchange agreements to hedge its foreign currency exposure on these issues of non-U.S. dollar denominated debt. At year-end 1990, the agreements effectively established U.S. dollar liabilities of \$49 million with a weighted average fixed interest rate of 9.9% and \$294 million with a weighted average variable interest rate of 7.5%. The carrying values of these agreements, which are based on current exchange rates, aggregated \$101 million in receivables at year-end 1990. Changes in these values resulting from exchange rate movements are offset by the changes in the carrying values of the underlying foreign currency denominated obligations, which are also based on current exchange rates.

The counterparties to PepsiCo's interest rate swaps and currency exchange agreements discussed above consist of a diversified group of financial institutions. PepsiCo is exposed to credit risk to the extent of nonperformance by these counterparties; however, PepsiCo regularly monitors its positions and the credit ratings of these counterparties and considers the risk of default to be remote.

Nonrecourse Obligation

In 1987 PepsiCo entered into an agreement related to a non-recourse obligation (the Obligation) under which it received net proceeds of \$299 million. The Obligation and related interest are payable solely from future royalty payments from certain independent domestic franchisees of one of PepsiCo's restaurant chains for a period not to exceed 10 years. The Obligation carries a variable interest rate (8.4% as of December 29, 1990) based upon a commercial paper rate. Under the terms of the agreement, principal repayments during the first five years can be readvanced; as it is PepsiCo's intent to elect this provision, the entire Obligation is considered noncurrent. Principal repayments, net of amounts readvanced, are estimated to be \$244 million over the next five years.

Income Taxes

Provision for income taxes on income from continuing operations:

	1990	1989	1988
Current— Federal	\$301.5	\$221.7	\$235.2
Foreign	126.6	89.5	52.8
State	62.3	38.0	40.6
	490.4	349.2	328.6
Deferred—Federal	66.0	95.7	37.4
Foreign	12.5	1.2	1.7
State	7.9	3.0	(2.7)
	86.4	99.9	36.4
	\$576.8	\$449.1	\$365.0

The deferred income tax provision, which results from differences in the timing of recognition of revenue and expense for financial reporting and tax purposes, included amounts related to depreciation of property, plant and equipment of \$34.5 million, \$36.3 million and \$44.0 million and amortization of intangibles of \$46.0 million, \$47.3 million and \$15.6 million in 1990, 1989 and 1988, respectively.

U.S. and foreign income from continuing operations before income taxes:

	1990	1989	1988
U.S.	\$ 915.5	\$ 843.4	\$ 773.4
Foreign	751.9	507.1	353.8
	\$1,667.4	\$1,350.5	\$1,127.2

Consistent with the allocation of income for tax purposes, approximately 50% of the income arising from the sale of soft drink concentrates manufactured in Puerto Rico is included in Foreign in the above table. Under the terms of a Puerto Rico tax incentive grant that was amended in 1989 and expires in 2006, the allocated soft drink concentrate manufacturing profits and all investment earnings in Puerto Rico were taxed at rates of approximately 7% and 4% in 1990 and 1989, respectively, with a nominal tax provided in 1988. The 7% Puerto Rico tax is applicable through 2006.

PepsiCo's soft drink concentrate manufacturing profits in Ireland were exempt from income tax through mid-1989 when a 10% tax, applicable through 2010, became effective.

Deferred taxes were not provided on unremitted earnings of foreign subsidiaries that are intended to be indefinitely reinvested. These unremitted earnings aggregated approximately \$605 million at year-end 1990, exclusive of amounts that if remitted in the future would result in little or no tax under current tax laws and the amended Puerto Rico tax incentive grant.

Reconciliation of the U.S. federal statutory tax rate to PepsiCo's effective tax rate on income from continuing operations:

	1990	1989	1988
U.S. federal statutory tax rate	34.0%	34.0%	34.0%
State income tax net of federal tax benefit	1.9	2.0	2.2
Earnings in jurisdictions taxed at lower rates (principally Puerto Rico and Ireland)	(3.9)	(3.9)	(3.7)
Nondeductible amortization of goodwill and other intangibles	1.6	2.0	1.4
Tax basis difference related to joint venture stock offering	1.6	—	—
Other, net	(0.6)	(0.8)	(1.5)
Effective tax rate	34.6%	33.3%	32.4%

Deferred income taxes reflected in the Consolidated Balance Sheet under the caption "Deferred Income Taxes" included amounts related to timing differences of \$741.9 million and \$635.9 million and Safe Harbor leases of \$200.9 million and \$221.0 million in 1990 and 1989, respectively. Prepaid income taxes of \$11.6 million in 1990 are reflected under the Consolidated Balance Sheet caption "Prepaid expenses and other current assets." Current deferred income taxes of \$8.2 million in 1989 are reflected under the Consolidated Balance Sheet caption "Other current liabilities."

In 1981 and 1982 PepsiCo invested in Safe Harbor leases (the Leases). These transactions, which do not impact the provision for income taxes, decrease income taxes payable over the initial years of the Leases and increase them over the later years. The deferred federal income taxes payable related to the Leases are based on the current U.S. federal statutory tax rate. Taxes payable related to the Leases are estimated to be \$40 million over the next five years.

In December 1989 the Financial Accounting Standards Board (the FASB) amended Statement No. 96 on Accounting for Income Taxes to extend the required adoption date to 1992. As the FASB continues to review and evaluate possible amendments, including a further extension of the adoption date, PepsiCo is unable to predict the final FASB requirements and therefore cannot reasonably estimate the effects of adoption.

Retirement Plans

PepsiCo has noncontributory defined benefit pension plans covering substantially all full-time domestic employees as well as contributory and noncontributory defined benefit pension plans covering certain international employees. Benefits generally are based on years of service and compensation or stated amounts for each year of service. PepsiCo funds the domestic plans in amounts not less than minimum statutory funding requirements nor more than the maximum amount that can be deducted for federal income tax purposes. International plans are funded in amounts sufficient to comply with local statutory requirements. The plans' assets consist principally of equity securities, government and corporate debt securities and other fixed income obligations. Capital Stock of PepsiCo accounted for approximately 18.1% and 16.8% of the total market value of the plans' assets at year-end 1990 and 1989, respectively.

In 1989, PepsiCo acquired Smiths Crisps Limited and Walkers Crisps Holdings Limited, two snack chips companies in the United Kingdom (the U.K. operations). The U.K. operations' employees were covered by various plans, including multiemployer plans. Pension expense and the required disclosures under SFAS 87 were not determinable until completion in late 1990 of a preliminary allocation of the assets of those plans, the transfer of relevant employees to separate plans and the appropriate actuarial valuations. Accordingly, the 1990 information presented below includes both the domestic plans and the U.K. operations' plans, while the 1989 and 1988 information includes only the domestic plans.

Other international plans are not significant in the aggregate and therefore are not included in the disclosures below. None of these other international plans was significantly over or underfunded at year-end 1990.

The net pension expense (credit) for company-sponsored plans (the Plans) included the following components:

	1990	1989	1988
Service cost of benefits earned	\$48.1	\$ 32.0	\$ 24.8
Interest cost on projected benefit obligations	63.3	47.1	40.0
Return on the Plans' assets:			
Actual	(27.0)	(154.6)	(86.1)
Deferred gain (loss) . . .	(55.9)	89.9	23.5
	(82.9)	(64.7)	(62.6)
Amortization of net transition gain	(19.0)	(19.0)	(19.0)
Pension expense (credit) .	\$ 9.5	\$ (4.6)	\$(16.8)

For certain Plans accumulated benefits exceeded the assets, but the related amounts were not significant. Reconciliations of the funded status of the Plans to the prepaid pension liability included in the Consolidated Balance Sheet are as follows:

	1990	1989
Actuarial present value of benefit obligations:		
Vested benefits	\$(549.9)	\$(449.0)
Nonvested benefits	(90.8)	(75.0)
Accumulated benefit obligation	(640.7)	(524.0)
Effect of projected compensation increases	(101.9)	(92.1)
Projected benefit obligation	(742.6)	(616.1)
Plan assets at fair value	985.7	869.8
Plan assets in excess of projected benefit obligation	243.1	253.7
Unrecognized prior service cost	42.4	26.2
Unrecognized net gain	(84.6)	(104.0)
Unrecognized net transition gain	(148.1)	(167.1)
Prepaid pension liability	\$ 52.8	\$ 8.8
Included in:		
"Investments in Affiliates and Other Assets"	\$ 85.3	\$ 31.2
"Other current liabilities"	(17.0)	(14.3)
"Other Liabilities and Deferred Credits"	(15.5)	(8.1)
	\$ 52.8	\$ 8.8

The assumptions used in computing the information above were as follows:

	1990	1989	1988
Discount rate-pension expense (credit)	9.1%	10.1%	10.0%
Expected long-term rate of return on plan assets	10.2%	10.0%	10.0%
Discount rate-projected benefit obligation	9.5%	9.0%	10.1%
Future compensation growth rate	5.0%-7.0%	5.0%-7.0%	5.0%-7.0%

The 1990 discount rates and rate of return represent weighted averages, reflecting the combined assumptions for domestic and the U.K. operations' plans in 1990.

Full-time domestic employees not covered by the Plans generally are covered by multiemployer plans as part of collective-bargaining agreements. Pension expense for these multiemployer plans was not significant in the aggregate.

PepsiCo provides health care and life insurance benefits to certain retired nonunion employees, the costs of which are expensed as incurred. In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106 (SFAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires the recognition of postretirement benefit expenses on an accrual basis. PepsiCo has not yet determined the impact of accounting for these costs on an accrual basis; however, the 1990 expense for health care claims incurred and life insurance premiums paid was \$20.4 million. PepsiCo expects to implement SFAS 106 by its required adoption date in 1993.

Employee Incentive Plans

In 1989 PepsiCo established the PepsiCo SharePower Stock Option Plan. Under this plan, which was approved by the Board of Directors, all employees who meet eligibility requirements may be granted stock options. Executive officers, part-time and short-service employees principally comprise the non-eligible group. Executive officers may be granted similar benefits under the 1987 Long-Term Incentive Plan. A stock option represents the right, exercisable in the future, to purchase one share of PepsiCo Capital Stock at the fair market value on the date of the grant. The number of options granted is based on a percentage of the employee's annual earnings. The grants may be made annually, have a term of 10 years from the grant date and generally become exercisable ratably over the five years after the grant date. SharePower options were granted to approximately 91,000 and 77,000 employees in 1990 and 1989, respectively.

The shareholder-approved 1987 Long-Term Incentive Plan (the Plan), effective January 1, 1988, provides long-term incentives to key employees through stock options, performance shares, stock appreciation rights (SARs) and incentive stock units (Units). The Plan authorizes up to a maximum of 54 million shares of PepsiCo Capital Stock to be purchased or paid pursuant to grants by the Compensation Committee of the Board of Directors (the Committee), which is composed of outside directors. There were 34 million and 43 million shares available for future grants at year-end 1990 and 1989, respectively. Payment of awards other than stock options is made in cash and/or PepsiCo Capital Stock as determined by the Committee.

Under the Plan, a stock option is exercisable for a specified period generally falling between 1 and 15 years from the date of grant. A performance share, equivalent to one share of PepsiCo Capital Stock, generally vests and is payable four years after the date of grant, contingent upon attainment of prescribed performance criteria. Employees may receive partial performance share awards if they become eligible for new or increased awards subsequent to a grant. A stock option is granted with each performance share. Beginning with the 1988 award, a specified number of additional stock options are granted in lieu of a performance share. These additional stock options may be converted to a performance share at the employee's election within 60 days from the date of grant.

SARs, available to certain senior management employees holding stock options, may be granted in the year the related options become exercisable. They allow the employees to surrender an option for an amount equal to the appreciation between the option exercise price and the fair market value of PepsiCo Capital Stock on the date the SAR is exercised. SARs expire no later than the expiration date of the related options. The maximum number of stock options that can be surrendered for SARs is 30% of outstanding options that have been exercisable for more than one year. During 1990, 147,570 SARs were granted. SARs outstanding at year-end 1990 and 1989 were 272,568 and 168,954, respectively.

Under the Plan, eligible middle management employees were granted Units, and beginning in 1989, stock options are granted in lieu of the Units. A Unit is equivalent in value to the fair market value of one share of PepsiCo Capital Stock at specified dates over a six-year vesting period from the date of grant. Units outstanding at year-end 1990 and 1989 were 585,149 and 671,902, respectively.

The combined estimated costs of performance shares, SARs and Units, expensed over the applicable vesting periods of the awards, were \$13 million, \$25 million and \$16 million in 1990, 1989 and 1988, respectively.

Award activity for 1990 and 1989 was as follows:

	SharePower Plan	Long-Term Incentive Plan	
	Stock Options	Stock Options	Performance Shares
		(000's)	
Outstanding at			
December 31, 1988.	—	17,480	2,918
Granted	10,742	2,109	15
Exercised/Paid	—	(614)	—
Surrendered for			
performance shares . .	—	(49)	16
Surrendered for SARs . .	—	(29)	—
Cancelled	(697)	(572)	(147)
Outstanding at			
December 30, 1989.	10,045	18,325	2,802
Granted	8,808	12,179	—
Exercised/Paid	(37)	(868)	(2,346)
Surrendered for			
performance shares . .	—	(1,228)	409
Surrendered for SARs . .	—	(44)	—
Cancelled	(1,589)	(1,490)	(69)
Outstanding at			
December 29, 1990.	17,227	26,874	796
Exercisable at			
December 29, 1990.	1,840	4,139	
Option prices per			
share:			
Exercised during 1990	\$17.58	\$4.11 to \$20.00	
Exercised during 1989	—	\$4.11 to \$ 8.75	
Outstanding at			
year-end 1990	\$17.58 to \$25.96	\$4.11 to \$26.44	

The above Long-Term Incentive Plan activity includes grants to middle management employees of 1,070,436 and 850,785 stock options in 1990 and 1989, respectively, 692,880 of which were exercisable at year-end 1990.

Contingencies

PepsiCo is subject to various claims and legal contingencies. While the ultimate liability that could result from these matters cannot be determined presently, management believes such liability will not have a material adverse affect on PepsiCo's business or financial condition.

At year-end 1990 PepsiCo was contingently liable under direct and indirect guarantees aggregating \$97 million. The guarantees are primarily issued to support financial arrangements of certain restaurant and soft drink bottling franchisees and PepsiCo joint ventures. PepsiCo manages the risk associated with these guarantees by performing appropriate credit reviews in addition to retaining certain rights as a franchisor or joint venture partner.

Management's Responsibility for Financial Statements

To Our Shareholders:

Management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and related notes. To meet these responsibilities, we maintain a system of internal control, supported by formal policies and procedures, which include an active Code of Conduct program intended to ensure key employees adhere to the highest standards of personal and professional integrity. PepsiCo's internal audit function monitors and reports on the adequacy of and compliance with our internal controls, policies and procedures. Although no cost effective internal control system will preclude all errors and irregularities, we believe the established system of internal control provides reasonable assurance that assets are safeguarded, transactions are recorded in accordance with our policies and the financial information is reliable.

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis, and include amounts based upon our estimates and judgments, as required. The consolidated financial statements have been audited by our independent auditors, who have expressed their opinions with respect to the fairness of the statements. Their audits included a review of the system of internal control and tests of transactions to the extent they considered necessary to render their opinions.

The Audit Committee of the Board of Directors is composed solely of outside directors. The Audit Committee meets periodically

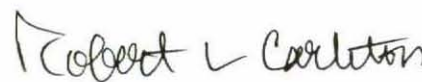
with our independent auditors, PepsiCo internal auditors and management to review accounting, auditing, internal control and financial reporting matters. Both our independent auditors and internal auditors have free access to the Audit Committee.



Wayne Calloway
Chairman of the Board and Chief Executive Officer



Robert G. Dettmer
Executive Vice President and Chief Financial Officer



Robert L. Carleton
Senior Vice President and Controller

Report of KPMG Peat Marwick Independent Auditors

Board of Directors and Shareholders
PepsiCo, Inc.

We have audited the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries as of December 29, 1990, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, appearing on pages 34, 35, 36, 38, 40, 42 through 48. These financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of PepsiCo, Inc. and subsidiaries as of December 30, 1989 and for each of the years in the two-year period ended December 30, 1989 were audited by other auditors whose report, dated February 6, 1990, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the

amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 29, 1990, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.



New York, New York
February 5, 1991

Selected Financial Data

(in millions except per share, shareholder and employee amounts, unaudited)
PepsiCo, Inc. and Subsidiaries

(in millions except per share, shareholder and employee amounts, unaudited) PepsiCo, Inc. and Subsidiaries	Growth Rates			1990	1989
	Compounded		Annual		
	10-Year 1980-90	5-Year 1985-90	1-Year 1989-90		
Summary of Operations					
Net sales	13.6%	18.6%	16.8%	\$17,802.7	\$15,242.4
Cost of sales and operating expenses				15,628.9	13,459.5 ^(c)
Interest expense				688.5	609.6
Interest income				(182.1)	(177.2)
				16,135.3	13,891.9
Income from continuing operations before income taxes	14.4%	19.5%	23.5%	1,667.4	1,350.5
Provision for income taxes				576.8	449.1
Income from continuing operations	16.6%	20.7%	21.0%	\$ 1,090.6	\$ 901.4
Net income	15.2%	14.6%	19.5%	\$ 1,076.9	\$ 901.4
Income per share from continuing operations	16.8%	21.9%	21.2%	\$ 1.37	\$ 1.13 ^(c)
Net income per share	15.5%	15.7%	19.5%	\$ 1.35	\$ 1.13
Cash dividends declared per share	10.6%	14.5%	19.7%	\$ 0.383	\$ 0.320
Average shares and equivalents outstanding				798.7	796.0
Cash Flow Data ^(e)					
Net cash generated by continuing operations	16.5%	20.9%	11.9%	\$ 2,110.0	\$ 1,885.9
Acquisitions and investments in affiliates for cash				\$ 630.6	\$ 3,296.6
Purchases of property, plant and equipment for cash	10.2%	8.9%	25.0%	\$ 1,180.1	\$ 943.8
Cash dividends paid	10.2%	12.8%	21.5%	\$ 293.9	\$ 241.9
Year-End Position					
Total assets	17.9%	23.8%	13.3%	\$17,143.4	\$15,126.7
Total debt ^(f)	23.8%	38.0%	8.4%	\$ 7,526.1	\$ 6,942.8
Shareholders' equity				\$ 4,904.2	\$ 3,891.1
Per share	13.0%	21.7%	26.4%	\$ 6.22	\$ 4.92
Market price per share	24.5%	26.7%	20.5%	\$ 25 3/4	\$ 21 3/4
Shares outstanding				788.4	791.1
Employees	10.7%	15.5%	15.8%	308,000	266,000
Shareholders of record				107,000	95,000
Statistics					
Return on average shareholders' equity ^(g)				24.8%	25.6%
Return on net sales ^(g)				6.1%	5.9%
Historical cost net debt ratio ^(h)				47%	51%
Market net debt ratio ⁽ⁱ⁾				22%	24%

All share and per share amounts have been restated to reflect the 1990 three-for-one stock split described in the Note to Consolidated Financial Statements on page 43.

(a) PepsiCo adopted the Financial Accounting Standard (SFAS) No. 87 on Employers' Accounting for Pensions. Prior years are not restated for SFAS 87.

(b) PepsiCo adopted the Financial Accounting Standard (SFAS) No. 52 on Foreign Currency Translation. Prior years are not restated for SFAS 52.

(c) In 1984 a \$156.0 charge (\$62.0 after-tax or \$0.07 per share) was recorded related to a program to sell several company-owned international bottling operations. In 1985 a \$25.9 credit (\$14.9 after-tax or \$0.02 per share) was recorded to reflect better than anticipated results from the program. In 1989, an additional \$32.5 credit (\$21.5 after-tax or \$0.03 per share) was recorded related to a decision to retain a bottling operation in Japan previously held for sale.

(d) Included a \$79.4 charge (\$79.4 after-tax or \$0.09 per share) related to a reduction in net assets of certain international bottling operations.

(e) PepsiCo adopted the Financial Accounting Standard (SFAS) No. 95 on Reporting of Cash Flows in 1988. Years prior to 1986 are not restated for SFAS 95. Cash flows from other investing and financing activities, which are not presented, are an integral part of total cash flow activity.

(f) Total debt includes short-term borrowings, long-term debt and the nonrecourse obligation. (See Notes to Consolidated Financial Statements on pages 45 and 46.)

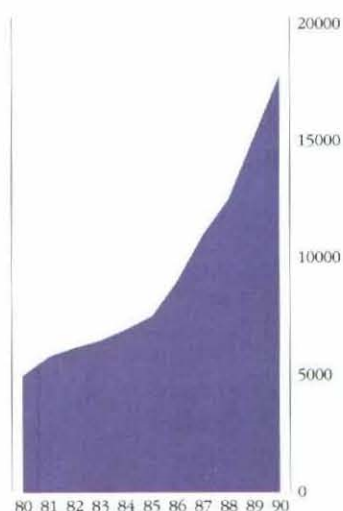
(g) The return on average shareholders' equity and return on net sales are calculated using income from continuing operations.

(h) The historical cost net debt ratio represents total debt (excluding the nonrecourse obligation) reduced by the pro forma remittance of offshore investment portfolios, as a percent of capital employed (net debt, other liabilities and deferred credits, deferred income taxes and shareholders' equity).

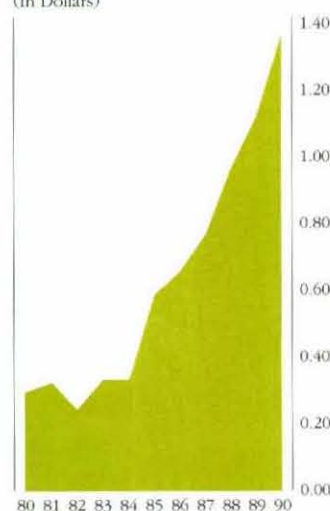
(i) The market net debt ratio represents net debt (see Note h) as a percent of net debt plus the market value of equity, based on the year-end stock price.

1988	1987 ^(a)	1986	1985	1984	1983	1982 ^(b)	1981	1980
\$12,533.2	\$11,018.1	\$9,017.1	\$7,584.5	\$7,058.6	\$6,568.6	\$6,232.4	\$5,873.3	\$4,955.9
11,184.0	9,890.5	8,187.9	6,802.4 ^(c)	6,479.3 ^(c)	5,995.7	5,684.7 ^(d)	5,278.8	4,435.7
344.2	294.6	261.4	195.2	204.9	175.0	163.5	147.7	112.7
(122.2)	(112.6)	(122.7)	(96.4)	(86.1)	(53.6)	(49.1)	(35.8)	(27.1)
11,406.0	10,072.5	8,326.6	6,901.2	6,598.1	6,117.1	5,799.1	5,390.7	4,521.3
1,127.2	945.6	690.5	683.3	460.5	451.5	433.3	482.6	434.6
365.0	340.5	226.7	256.7	180.5	169.5	229.7	213.7	200.3
\$ 762.2	\$ 605.1	\$ 463.8	\$ 426.6	\$ 280.0	\$ 282.0	\$ 203.6	\$ 268.9	\$ 234.3
\$ 762.2	\$ 594.8	\$ 457.8	\$ 543.7	\$ 212.5	\$ 284.1	\$ 224.3	\$ 297.5	\$ 260.7
\$ 0.97	\$ 0.77	\$ 0.59	\$ 0.51 ^(c)	\$ 0.33 ^(c)	\$ 0.33	\$ 0.24 ^(d)	\$ 0.32	\$ 0.29
\$ 0.97	\$ 0.76	\$ 0.58	\$ 0.65	\$ 0.25	\$ 0.33	\$ 0.27	\$ 0.36	\$ 0.32
\$ 0.267	\$ 0.223	\$ 0.209	\$ 0.195	\$ 0.185	\$ 0.180	\$ 0.176	\$ 0.158	\$ 0.140
790.4	789.3	786.5	842.1	862.4	859.3	854.1	837.5	820.5
\$ 1,894.5	\$ 1,334.5	\$1,212.2	\$ 817.3	\$ 981.5	\$ 670.2	\$ 661.5	\$ 515.0	\$ 458.3
\$ 1,415.5	\$ 371.5	\$1,679.9	\$ 160.0	\$ —	\$ —	\$ 130.3	\$ —	\$ —
\$ 725.8	\$ 770.5	\$ 858.5	\$ 770.3	\$ 555.8	\$ 503.4	\$ 447.4	\$ 414.4	\$ 447.4
\$ 199.0	\$ 172.0	\$ 160.4	\$ 161.1	\$ 154.6	\$ 151.3	\$ 142.5	\$ 126.2	\$ 111.2
\$11,135.3	\$ 9,022.7	\$8,027.1	\$5,889.3	\$4,876.9	\$4,446.3	\$4,052.2	\$3,960.2	\$3,309.7
\$ 4,107.0	\$ 3,225.0	\$2,865.3	\$1,506.1	\$ 948.9	\$1,073.9	\$1,033.5	\$1,214.0	\$ 888.6
\$ 3,161.0	\$ 2,508.6	\$2,059.1	\$1,837.7	\$1,853.4	\$1,794.2	\$1,650.5	\$1,556.3	\$1,509.7
\$ 4.01	\$ 3.21	\$ 2.64	\$ 2.33	\$ 2.19	\$ 2.13	\$ 1.96	\$ 1.89	\$ 1.84
\$ 13½	\$ 11¼	\$ 8¾	\$ 7¾	\$ 4½	\$ 4¼	\$ 3¼	\$ 4½	\$ 2¾
788.4	781.2	781.0	789.4	845.2	842.0	840.4	824.4	821.5
235,000	225,000	214,000	150,000	150,000	154,000	133,000	120,000	111,000
94,000	92,000	87,000	72,000	62,000	60,000	48,000	49,000	51,000
26.9%	26.5%	23.8%	23.1%	15.4%	16.4%	12.7%	17.5%	16.2%
6.1%	5.5%	5.1%	5.6%	3.9%	4.3%	3.3%	4.6%	4.7%
37%	35%	40%	24%	11%	23%	30%	38%	32%
20%	18%	23%	12%	7%	16%	20%	23%	23%

Net Sales
(\$ In Millions)



Income Per Share From Continuing Operations
(In Dollars)



Quarterly Financial Data

(in millions except per share amounts, unaudited)

	First Quarter (12 Weeks)		Second Quarter (12 Weeks)		Third Quarter (12 Weeks)		Fourth Quarter (16 Weeks)		Full Year (52 Weeks)	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Net sales	\$3,677.7	2,958.3	4,204.7	3,592.7	4,475.7	3,901.6	5,444.6	4,789.8	17,802.7	15,242.4
Gross profit	\$1,874.7	1,529.7	2,200.7	1,854.8	2,307.8	1,976.1	2,809.6	2,414.1	9,192.8	7,774.7
Income from continuing operations										
before income taxes	\$ 275.6	252.1	438.9 ^(a)	396.5 ^(b)	566.0 ^(c)	406.2	386.9 ^(d)	295.7 ^(e)	1,667.4	1,350.5
Provision for income taxes	\$ 93.7	87.0	146.4	131.6	215.7	136.9	121.0	93.6	576.8	449.1
Income from continuing operations	\$ 181.9	165.1	292.5	264.9	350.3	269.3	265.9	202.1	1,090.6	901.4
Discontinued operation charge	\$ —	—	—	—	(13.7)	—	—	—	(13.7)	—
Net income	\$ 181.9	165.1	292.5	264.9	336.6	269.3	265.9	202.1	1,076.9	901.4
Income (charge) per share:										
Continuing operations	\$ 0.23	0.21	0.36	0.33	0.44 ^(c)	0.34	0.34	0.25	1.37	1.13
Discontinued operation	\$ —	—	—	—	(0.02)	—	—	—	(0.02)	—
Net income per share	\$ 0.23	0.21	0.36 ^(a)	0.33 ^(b)	0.42	0.34	0.34 ^(d)	0.25 ^(e)	1.35	1.13

NOTE: The per share amounts have been restated to reflect the three-for-one stock split described in the Note to Consolidated Financial Statements on page 43.

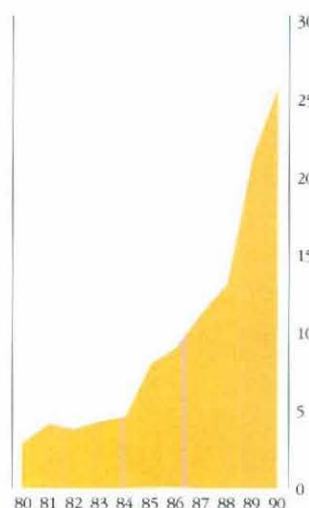
- (a) Included a \$9.1 unusual charge (\$5.5 after-tax or \$0.01 per share) to write-off receivables due to a major domestic retail customer filing for bankruptcy.
- (b) Included a \$22.2 net unusual credit (\$15.0 after-tax or \$0.02 per share) consisting of a \$32.5 credit resulting from a decision to retain a bottling operation in Japan previously held for sale, partially offset by an \$8.0 reorganization charge to consolidate domestic field operations of KFC and a \$2.3 net charge in domestic snack foods.
- (c) Included a \$70.6 net unusual credit (\$23.8 after-tax or \$0.03 per share) consisting of a \$118.2 credit from an initial public stock offering by PepsiCo's KFC joint venture in Japan, partially offset by an \$18.0 charge for accelerated contributions to the PepsiCo Foundation, a \$17.6 charge for the intended closures of certain underperforming restaurants and a \$12.0 charge for potentially uncollectible receivables from highly leveraged domestic retail customers.
- (d) Included a \$26.3 unusual charge (\$22.5 after-tax or \$0.03 per share) consisting of a \$15.9 charge to reduce the carrying value of an international Pizza Hut joint venture investment, an \$8.0 charge to consolidate domestic Pizza Hut field operations and a \$2.4 charge to relocate international Pizza Hut headquarters.
- (e) Included a \$17.8 unusual charge (\$13.2 after-tax or \$0.02 per share) consisting of a \$12.3 reorganization charge to decentralize international soft drinks operations and a \$5.5 reorganization charge to consolidate domestic field operations of Taco Bell.

Stock Performance

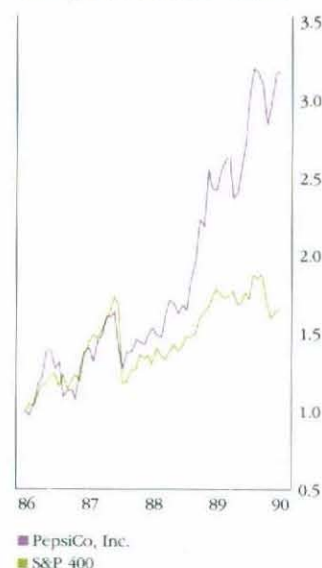
PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A \$1,000 investment in our stock made in 1965 was worth approximately \$38,000 on December 29, 1990, assuming the reinvestment of dividends. Past performance is not necessarily indicative of future returns on investments in PepsiCo Capital Stock.

As the chart at the far right illustrates, the return on PepsiCo Capital Stock compares favorably with the performance of the Standard & Poor's 400 over the past five years.

**Year-End Market
Price Of Stock**
(In Dollars)



**Comparison
Of Monthly Market
Price Performance**
(Closing Price Indexed At 12/31/85)



Capital Stock Information

Stock Trading Symbol

PEP

Stock Exchange Listings

New York, Midwest, Basel,
Geneva, Zurich, Amsterdam, Tokyo

At year-end 1990 there were approximately 107,000 shareholders of record.

Dividend Policy

Cash dividends are declared quarterly. Quarterly cash dividends have been paid since PepsiCo was formed in 1965, and dividends have increased for 19 consecutive years.

Consistent with PepsiCo's current payout target of approximately one-third of the prior year's income from continuing operations, the 1990 dividend payout ratio was 34% of 1989 earnings.

Dividends Declared Per Share (in cents)*

Quarter	1990	1989
1	8 $\frac{1}{3}$	7
2	10	8 $\frac{1}{3}$
3	10	8 $\frac{1}{3}$
4	10	8 $\frac{1}{3}$
Total	38 $\frac{1}{3}$	32

Dividend Reinvestment Plan

Shareholders may increase their investment in our stock by enrolling in PepsiCo's Dividend Reinvestment Plan. A brochure explaining this convenient plan, for which PepsiCo pays all fees, is available from our transfer agent:

Manufacturers Hanover Trust Company
450 West 33rd Street
New York, New York 10001

Stock Prices*

The high, low and closing prices for a share of PepsiCo Capital Stock on the New York Stock Exchange, as reported by The Dow Jones News/Retrieval Service, for each fiscal quarter of 1990 and 1989 were as follows (in dollars):

1990	High	Low	Close
Fourth Quarter	27 $\frac{7}{8}$	21	25 $\frac{3}{4}$
Third Quarter	27 $\frac{7}{8}$	21 $\frac{3}{4}$	25 $\frac{1}{4}$
Second Quarter	25 $\frac{1}{2}$	20 $\frac{5}{8}$	24 $\frac{3}{8}$
First Quarter	21 $\frac{1}{2}$	18	20 $\frac{1}{2}$
1989			
Fourth Quarter	22	18	21 $\frac{3}{8}$
Third Quarter	20 $\frac{3}{4}$	17	18 $\frac{3}{4}$
Second Quarter	18 $\frac{3}{8}$	14 $\frac{1}{4}$	17 $\frac{1}{4}$
First Quarter	14 $\frac{3}{4}$	12 $\frac{5}{8}$	14 $\frac{1}{2}$

*Dividend and stock price information reflect the 1990 three-for-one stock split.

Shareholder Information

Financial Information

Security analysts and representatives of financial institutions are invited to contact:

Margaret D. Moore
Vice President, Investor Relations
Telephone: (914) 253-3035

Shareholder Inquiries

Questions concerning your dividend reinvestment account, dividend payments or address changes should be addressed to PepsiCo's transfer agent:

Manufacturers Hanover Trust Company
Security Holder Relations
P.O. Box 24935, Church Street Station
New York, New York 10249
Telephone: (212) 613-7147

Please mention PepsiCo, your name as printed on your stock certificate, your social security number, and include your address and telephone number in all correspondence.

Shareholders' Meeting

The Annual Meeting of Shareholders will be held at PepsiCo World Headquarters on Anderson Hill Road, Purchase, New York, at 10 a.m. (EDT), Wednesday, May 1, 1991. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

If you need additional assistance or information, or would like to receive free of charge a copy of PepsiCo's Form 10-K and 10-Q reports filed with the Securities and Exchange Commission, contact:

**Manager of Shareholder Relations
PepsiCo, Inc.
Purchase, New York 10577
Telephone: (914) 253-3055**

PepsiCo's Annual Report contains many of the valuable trademarks owned and used by PepsiCo and its subsidiaries and affiliates in the United States and internationally to distinguish products and services of outstanding quality.

PepsiCo Directors

Arnold R. Weber

President,
Northwestern University, 61
Elected 1978
Committees: Audit,
Compensation

Wayne Calloway

Chairman of the Board
and Chief Executive Officer,
PepsiCo, Inc., 55
Elected 1983
Committee: Executive

Roger B. Smith

Retired Chairman and Chief Executive
Officer, General Motors Corp., 65
Elected 1989
Committees: Audit,
Compensation

**Donald M. Kendall**

Chairman of the Executive
Committee (Retired Chairman of the
Board and Chief Executive Officer,
PepsiCo, Inc.), 70
Elected 1961
Committees: Audit,
Compensation

**Michael H. Jordan**

Chairman,
PepsiCo International Foods
and Beverages, 54
Elected 1985
Committee: Executive

Sharon Percy Rockefeller

President and Chief Executive Officer,
WETA public stations, 46
Elected 1986
Committees: Audit,
Compensation

Robert H. Stewart, III

Vice Chairman of the Board,
Team Bank, 65
Elected 1965
Committees: Audit,
Executive, Compensation
(Chairman)



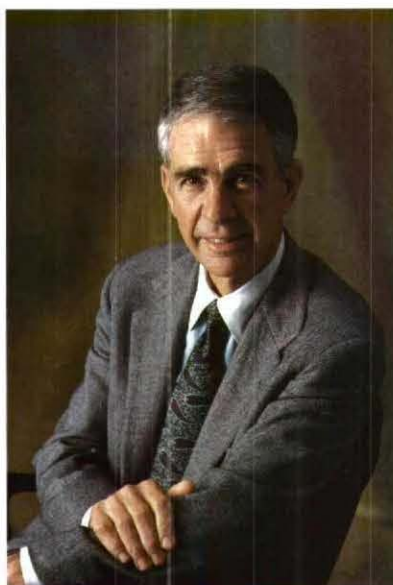
Clifton C. Garvin, Jr.
Retired Chairman of the Board
and Chief Executive Officer,
Exxon Corporation, 69
Elected 1975
Committees: Compensation,
Executive, Audit (Chairman)

Frank T. Cary
Retired Chairman and
Chief Executive Officer,
International Business
Machines Corporation, 70
Elected 1983
Committees: Audit,
Compensation, Executive

Roger A. Enrico
Chairman,
Frito-Lay, Inc., 46
Elected 1987
Committee: Executive



Robert E. Allen
Chairman of the Board
and Chief Executive Officer,
AT&T, 56
Elected 1990
Committees: Audit,
Compensation



John J. Murphy
Chairman of the Board,
Chief Executive Officer
and President,
Dresser Industries, 59
Elected 1984
Committees: Audit,
Compensation

Andrall E. Pearson
Professor, Harvard Business
School (Retired President and
Chief Operating Officer,
PepsiCo, Inc.), 65
Elected 1970
Committees: Audit,
Compensation

William T. Coleman, Jr.
Senior Partner,
O'Melveny & Myers, 70
Elected 1977
Committees: Audit,
Compensation



Principal Divisions and Corporate Officers

(Listings for Division Presidents and Officers include age and years of PepsiCo experience.)

Divisions

Pepsi-Cola North America
Somers, New York 10589
Craig E. Weatherup, President and
Chief Executive Officer, 45, 17 years

Frito-Lay, Inc.
7701 Legacy Drive
Plano, Texas 75024
Roger A. Enrico, Chairman, 46, 20 years
Robert H. Beeby, President, 59, 19 years

PepsiCo International Foods and Beverages
400 Frito-Lay Tower
Dallas, Texas 75235
Michael H. Jordan, Chairman, 54, 17 years

Pepsi-Cola International
Somers, New York 10589
Christopher A. Sinclair, President and
Chief Executive Officer, 40, 9 years

PepsiCo Foods International
400 Frito-Lay Tower
Dallas, Texas 75235
John S. Pingel, Jr., President and
Chief Executive Officer, 49, 20 years

Kentucky Fried Chicken Corporation
1441 Gardiner Lane
Louisville, Kentucky 40213
John M. Cranor III, President and
Chief Executive Officer, 44, 14 years

Pizza Hut Worldwide
9111 East Douglas
Wichita, Kansas 67207
Steven S. Reinemund, President and
Chief Executive Officer, 42, 7 years

Taco Bell Worldwide
17901 Von Karman
Irvine, California 92714
John E. Martin, President and
Chief Executive Officer, 45, 8 years

PepsiCo Food Systems Worldwide
Two Galleria Tower
3455 Noel Road, Suite 2100
Dallas, Texas 75240
Graham G. Butler, Chief Executive
Officer, 51, 19 years

Officers

Wayne Calloway
Chairman of the Board and
Chief Executive Officer, 55, 24 years

Donald M. Kendall
Chairman of the Executive
Committee, 70, 46 years

Robert G. Dettmer
Executive Vice President and
Chief Financial Officer, 59, 18 years

Robert L. Carleton
Senior Vice President and
Controller, 50, 16 years

Donovan R. Christopherson
Senior Vice President, Restaurant
Development, 58, 10 years

J. Roger King
Senior Vice President,
Personnel, 50, 21 years

Edward V. Lahey, Jr.
Senior Vice President, General
Counsel and Secretary, 52, 26 years

Joseph F. McCann
Senior Vice President,
Public Affairs, 50, 19 years

Leonard Schutzman
Senior Vice President and
Treasurer, 44, 14 years

Kenneth T. Stevens
Senior Vice President, Strategic
Planning, 39, less than 1 year

Robert O. Barber
Vice President and
Assistant Controller, 41, 13 years

John T. Cahill
Vice President and
Assistant Treasurer, 33, 1 year

Gerard W. Casey
Vice President and
Associate General Counsel, 48, 21 years

Douglas M. Cram
Vice President and
Assistant General Counsel, 47, 17 years

Allan B. Deering
Vice President, Management Information
Services, 56, 10 years

Lawrence F. Dickie
Vice President, Associate General Counsel
and Assistant Secretary, 48, 14 years

Robert S. Enright
Vice President, Taxes, 44, 2 years

John W. Ewing
Vice President, Human
Resources, 61, 37 years

William A. Finkelstein
Vice President, Intellectual Property
Counsel, 43, 17 years

John J. Flaherty
Vice President and
General Auditor, 51, 9 years

David D. Hatch
Vice President, Organization
and Management Development,
37, 6 years

Joseph J. Joyce
Vice President and
Assistant General Counsel, 47, 19 years

Fred S. McRobie
Vice President and
Assistant General Counsel, 49, 16 years

Margaret D. Moore
Vice President, Investor Relations,
43, 17 years

Claudia E. Morf
Vice President and
Assistant Treasurer, 39, 9 years

Charles W. Rogers
Vice President, Compensation
and Benefits, 42, 12 years

David E. Scherb
Vice President, Benefits, 42, 3 years

David L. Wright
Vice President, Government Affairs,
42, 6 years

Executive Offices

Purchase, New York 10577
(914) 253-2000

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Design: Eisenman & Enock, Inc.
Printing: The Bradley Printing Company
Typography: Graphic Technology Inc.
Photography: Stephen Wilkes, Ben Rosenthal
Chairman's and Directors'
Photography: Alen MacWeeney
Our model, Reid Asato, was a sumo wrestler
for 12 years. He was originally from Hawaii.



Future Big Brands (We Hope!)

In just the last two years, PepsiCo introduced more than 60 new products in markets around the world. Not all will become big brands, and some may fail altogether. But those that succeed will help build a great future for PepsiCo.

Introduced
Since 1989

Total Retail Sales
Since Introduction

Soft Drinks

Mug Cream
Diet Mug Cream

Sales

\$17 Million

Snack Foods

Light Line: Doritos, Ruffles, Chee-tos
Smartfood Cheddar Cheese Popcorn
Sunchips Multigrain Snacks
Chee-tos Paws Cheese Flavored Snacks
Doritos Jumpin' Jack Tortilla Chips
Rold Gold Bavarian Pretzels
Tostitos Restaurant Style Tortilla Chips
Crunch Tators Potato Chips
Grandma's Grab Cookie Bits
Fritos Flamin' Hot Corn Chips
Santitas Cantina Style Tortilla Chips
Tostitos Lime 'N' Chile Restaurant Style Tortilla Chips
Ruffles Mesquite Grille B-B-Q Potato Chips
Frito-Lay Chunky Salsa
Fun-chos Corn Snacks
Dracoulina Corn Snacks
Doritos Enchilados Tortilla Chips
Fritos Texas Cheese Corn Chips

Sales

\$1,389 Million

Restaurants

Meat Lover's Pizza
Veggie Lover's Pizza
Cheese Lover's Plus Pizza
Pepperoni Lover's Pizza
Steak Soft Taco
Chicken Soft Taco
Chilito
Taco Supreme
Nachos Supreme
Soft Taco Supreme
Cinnamon Twists
Lite 'n Crispy Chicken
Hot Wings
Colonel's Chicken Sandwich

Sales

\$746 Million

Grand Total

\$2.2 Billion

We ran out of space so the list is incomplete. But the total gives you an idea of the brand excitement and dynamism going on at all our divisions.

Big Brands Mean Big Results

Any doubts about the importance of big brands to a consumer products company? If so, consider that in the past five years, PepsiCo more than doubled sales and profits, and our shareholders had returns that averaged 29% per year. If you invested \$100 in PepsiCo stock in 1985, it would have been worth \$361 at the end of 1990, assuming dividends were reinvested. That's guaranteed to make even a sumo smile!

